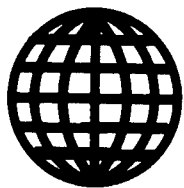


JPRS-CAR-92-092
4 December 1992



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Northeast Asia

Passage of Japan's PKO Bill Analyzed

92CM0408 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 13, 8 Jul 92 pp 3-7

[Article by Wu Jinan (0702 1376 0589): "Springboard for Becoming a Political Superpower"]

[Text] On 15 June, as Speaker of the House of Representatives Sakurauchi Yoshio announced official passage of the "United Nations Peacekeeping Cooperation Bill" (abbreviated as PKO bill; PKO is an abbreviation of the English phrase peacekeeping operations), Diet members of the Liberal Democratic Party [LDP], which favors the bill, Komeito, and Minshato [Democratic Socialist Party; hereafter DSP] parties stood to applaud, while angry protest arose from the observers' gallery. At that moment, the large clock in the conference hall of the House of Representatives read precisely 8:29 p.m.

People may forever remember the moment because it indicates the turning of a new page in Japan's postwar history. Passage of the PKO bill means that Japan's Self Defense Forces [SDF] can be sent overseas grandly in the name of participating in peacekeeping operations of the United Nations. This breakthrough in the framework of Japan's postwar peace constitution will undoubtedly arouse strong reactions in Japan and overseas.

A Controversial Bill

After the Gulf crisis in August 1990, Japan's ruling LDP drafted a "United Nations Peacekeeping Cooperation Bill." It aimed to send the SDF abroad under the banner of the UN. The bill ultimately died and was dropped because of public opposition. However, the LDP did not abandon its original intent. After the Gulf war broke out, the LDP shored up preparations for the bill and sought the support of some opposition parties. On 9 September 1991, a draft of the "United Nations Peacekeeping Cooperation Bill" officially came out. It was repeatedly revised by the Cabinet and 3rd Session of the Diet. On 29 May 92, after the LDP, Komeito, and the DSP proposed a final revised bill, it may be said that the two political powers favoring and opposing this bill in the Diet had their most heated "seesaw battle" of recent years. In order to stop passage of the bill, the Socialist and Communist Parties proposed a series of investigative responsibility and no confidence bills. Furthermore, during the vote, they adopted a "cow walk battle strategy [a delaying tactic]" to delay passage as long as possible. They even went so far as to propose the resignation of all Socialist Party members of the House of Representatives in order to compel the House to cease deliberations and adjourn immediately. Nevertheless none of this could stop the LDP, Komeito, and the DSP, which hold a majority of seats, from passing the bill.

Compared to the "United Nations Peacekeeping Cooperation Bill," the PKO bill to a certain extent accepts the opinions of the Komeito and the DSP. There are certain

restrictions to participation in peacekeeping operations, such as the provision to limit the total number of people engaged to a maximum of 2,000, while emphasizing that dispatched personnel must be "approved of by the United Nations and the countries involved" to uphold the "principle of neutrality." In particular, on May 29, the evening before the vote, they added articles to weaken the military nature of the bill such as that the SDF must be approved by the Diet before the bill can be drafted, and that in three years, the Diet must again deliberate whether the PKO are appropriate. In the words of the YOMIURI SHIMBUN, this bill is the "result of conciliation" between the ruling and non-ruling parties.

However, as noted by those in Japan's public opinion circles, this quickly-passed bill contains many concealed and unclear sections. "It is extremely irresponsible to allow such a leaky, hole-ridden bill to become law."

For example, there is the issue of the use of force. Article 2, Clause 2 of the bill stipulates that the SDF engaged in peacekeeping operations "must neither threaten the use of force nor use force." However, Article 24 authorizes SDF members to use weapons to protect themselves. Traditionally in the past, the peacekeeping forces of the United Nations commonly have been drawn into small-scale military conflicts. Besides protecting themselves, they also often use forceful measures to prevent obstacles to enacting their responsibilities. In complex conflicts, the bill makes no clear stipulations as to how to differentiate "use of force" and "use of force to protect oneself."

A related matter is the issue of command. Article 8 of the bill, on implementing essentials, clearly stipulates that personnel engaged in peacekeeping activities are under the sole command of the prime minister, but at the same time, they must accept orders from the secretary representing the United Nations as the commanding organization, in areas of conflict. Actually, there is "dual commanding authority." An ambiguous issue is whether the SDF will ultimately follow the orders of the local command organization to enter the fray or act according to the Japanese Government's will and withdraw from the disputed area once local conflicts escalate.

A third matter is the temporary "freeze" on the SDF from participating in peace keeping for the United Nations. This is stipulated by Supplementary Article 2. The scope of the "freeze" is to watch over cease-fires, stay away from warring sides, and remove disputants' weapons; these tasks involve the danger of entering into conflict. However, they are allowed to engage in some rear support troop activity. Actually, it is very difficult to draw a clear dividing line because it is possible that they might run into mines or attacks while repairing roads and building bridges. Moreover, the bill ultimately does not clarify conditions stipulating elimination of the "freeze." The MAINICHI SHIMBUN noted that the "freeze" omissions were to hoodwink the masses into agreeing to dispatch troops abroad since an agreement

among the LDP, Komeito, the DSP, and the government in interpreting the constitution can remove the freeze at any time

The greatest divergence of opinion is whether dispatching troops abroad violates the current Japanese Constitution. Allowing SDF troops to be dispatched abroad in the name of PKO in the end breaks with constitutional restrictions, although Article 1 of the bill makes it clear at the outset that the aim of proposing participation in the United Nations' PKO is to make a positive contribution to international peace centered around the United Nations, and the bill particularly emphasizes not threatening with weapons and not using weapons, plus restricts the number of people involved to 2,000. It is also contrary to the consistent position of Japan's leadership. The main opposition of the Socialists, Communists, and other parties out of power and the public to the PKO bill is on this point.

Background to Passage of PKO Bill

People cannot help asking: with domestic opinion clearly against it, why did Japan's leaders rush to get it passed through both Houses of the Diet? What is the background?

First, there are developments in the international situation pushing Japan to become a "political superpower." This is a great diplomatic opportunity.

The United Nations has had an increasingly prominent position and role in peacekeeping since the end of the cold war. Since it was established, the United Nations has been engaged in keeping the peace 27 times, more than one-half of which have been in the past four years. Until now, 80 countries have sent more than 500,000 participants. However, Japan could neither send a single soldier overseas nor participate in these operations because of postwar constitutional restrictions. This has meant that Japan's political influence in international affairs has been greatly restricted. After the outbreak of the Gulf crisis, although Japan provided \$13 billion in economic aid, it was still criticized by the United States as being a mere "ally on paper" for only giving money, not blood. This really stirred up Japan's leadership and became the greatest impetus for passing the bill. This is how the "United Nations Peacekeeping Bill" and the "United Nations Peacekeeping Cooperation Bill" came about. As noted by Japanese newspapers, allowing SDF to go abroad is the "springboard for Japan to become a political superpower."

A direct reason for the rush to pass the PKO bill is that it may allow the SDF to send troops immediately in order to implement the Kampuchean peace plan. Moreover, the person in charge of the Kampuchean transition period United Nations organization is a deputy secretary of the United Nations, a Japanese national named Akashi Yasushi. Relocation of more than 300,000 Kampuchean refugees is the responsibility of another high-level Japanese official at the United Nations, Ogata Sadako, High Commissioner for Refugee Affairs. Japan

will be the United Nations' authority organization for Kampuchea in the transition period and undertake approximately two-thirds of the necessary \$2.4 billion needed to settle refugees. Obviously, this is a great opportunity for Japan to exert its influence. If Japan cannot dispatch the needed personnel to Kampuchean operations, it will have lost this terrific chance.

Second, Japanese public opinion and national opinion has shifted to favor passage of the PKO bill.

In recent years, some important Japanese in the political world once again have advocated revising or reinterpreting the constitution in order to break through the restriction of "one-country pacifism." In a book edited by former Prime Minister Nakasone Yasuhiro and three scholars entitled *After the Cold War*, he exhorts the Japanese people to reinvestigate the current constitution forced upon Japan by the postwar American occupation authorities and proclaim a constitution that truly can reflect the sentiments of the Japanese people. Former LDP Secretary General Ozawa Ichiro, who chairs the "Special Committee on Japan's Role in International Society," advocates reinterpreting the constitution's stipulation prohibiting the use of force; namely, what the constitution prohibits is Japan's independent use of force, and use of force according to the United Nation's resolution does not violate the constitution. It cannot be said that many people support these views. Nonetheless, they gradually are being accepted and there are gradual changes in people's consciousness thanks to great propaganda by some public media, plus the passage of time. Regarding the issue of whether SDF can be sent abroad, many who were undecided at first supported it in the end. According to a survey by the ASAHI SHIMBUN, in November 1990, 58 percent opposed sending SDF abroad, and the percentage of women was even higher, at 85 percent. But by April 1991, 56 percent approved of sending SDF minesweepers to the Middle East. That the Komeito, DSP, and other parties out of power which used to enter into rivalry with the LDP could vote in favor of the PKO bill along with the LDP means that they were somewhat affected by the change in public opinion as well as the role the LDP played in painstakingly adopting a "retreat" and "advance" strategy to win them over by any means. Of course, one cannot simply draw an equal sign between rightists and a bill approving sending troops abroad, but the reasons compelling these parties out of power to draw close to the LDP should be studied well.

Finally, the Miyazawa cabinet's rush to pass the PKO bill was made in order to strengthen its own position.

The LDP's Miyazawa has always been considered a firm "dove" upholder of the constitution, who neither favored revising it nor agreed to reinterpret it to allow the SDF to go abroad. However, since November 1991 when Miyazawa entered the Prime Minister's residence, he has had no political achievements. He has had no good plans and was criticized, especially because the public was most concerned about the lack of political

reform plus the large-scale economic slump. In March and April 1992, Miyazawa's support slid below the cordon of 20 percent. Under these conditions, he had no choice but to seek another shortcut and a breakthrough in the PKO bill. Amidst intense haggling surrounding the PKO bill in the Diet, Prime Minister Miyazawa himself commanded the first line and departed from his former warm and detached appearance; this obvious criticism of Socialist Party Diet members to stop passage of the bill is undemocratic. As the Diet session was about to end, the Miyazawa cabinet resolved an unsettled issue for the LDP when it easily passed the PKO bill left by the previous Diet session, ultimately dispelling the intense opposition of the Socialists and other parties not in power. Recent public opinion polls indicate that although opposition to the Miyazawa cabinet is still over 40 percent, support is returning to about 30 percent. This undoubtedly is very favorable to his continuation in office and fulfillment of his term until the session ends.

Still Many Thorny Issues

According to reports, after the PKO bill was passed, the Japanese Government had in hand specific preparations for dispatching troops abroad. For example, establishing a cooperative headquarters for peacekeeping operations of the United Nations in which Prime Minister Miyazawa himself also serves as chief; setting up a general affairs office to handle routine matters; sending an investigative team to Kampuchea to investigate; selecting SDF officers to study at the United Nations training center in Sweden; and determining the makeup of peacekeeping personnel sent to Kampuchea and the kinds of weapons to be taken along by SDF. It is estimated that 15 related government orders must be promulgated. All can be implemented by mid-July at the earliest.

There is no doubt that passage of this bill is extremely significant for Japan's political situation in the 1990's and its role and influence in international affairs. However, there still are many unpredictable factors that will affect whether Japan can easily realize its plans. Its future is not necessarily bright. At present there are at least two big problems:

One is how to ameliorate the conflict between the government and the public and stabilize the political situation as soon as possible.

It can be said that in the process of deliberating the PKO bill, Japan's government parties launched the most intense haggling. The ASAHI SHIMBUN noted that since contention over the Japanese-U.S. security treaty in the 1960's, the majority of the Japanese Diet has never gone this far to suppress and lock up the opinions of minority political parties. The LDP dared to act this way to win the support of the Komeito and DSP. Second, in the past few years, the Komeito has not refused to cooperate with the LDP, provided that it agreed with policy decisions. Furthermore, the DSP, which had always vacillated between the socialists and the LDP, gradually is drawing nearer the LDP. The LDP's former consistent isolation from and opposition to all other

parties not in power will no longer be the case. Some analysts even predict that the LDP will be unable to dispel the possibility of its forming a united political power with the Komeito and even the DSP if it fails to win a majority of seats in the House of Councillors' reelection.

On the other hand, the rift between the LDP and the number one party not in power, the Socialist party, has widened further. This will make the future political situation more complicated and confusing. On the morning of the day the bill was passed, all Socialist Party Diet members submitted resignations to compel the House of Representatives to adjourn. It can be said that this burning of their boats was a final showdown. However, in the end they were unable to prevent passage of the PKO bill. This did not prevent the Socialists from feeling keenly ashamed. In the past, Socialist Party Committee Chairman Tanabe Makoto had a deep personal friendship with LDP strongman Kanemaru Shin; the LDP had always used this channel to coordinate with the socialists. If Tanabe were to resign because he was unable to stop the PKO bill, antagonistic feelings towards the LDP by his successor definitely would increase and it would be increasingly difficult for the LDP to have dealings with the socialists. That session of the Diet ended on time 21 June. The House of Councillors will hold reelections 26 July. The Socialists are summing up their experience and lessons in contending with the LDP in the preceding episode. They are putting the Diet struggle out into society and relying on public opinion support to continue contention with the LDP. It will come out in the House of Councillors reelections whether Japanese voters agree with or oppose the PKO bill. The tense government-public struggle is in the past. How to restore relations with the socialists is the issue over which LDP leadership racks its brains.

A second problem is how to dispel misgivings about Japan overseas, particularly those of neighboring Asian countries.

As the TOKYO SHIMBUN noted, it can be said that Japan's PKO bill gives rise to welcome and caution abroad. The United States asked Japan to undertake a contribution of manpower long ago. Thus, it immediately welcomed the PKO bill's passage. Other Western countries such as France supported it to some degree. Prince Siha-nouk and Hun Sen of Kampuchea long ago hoped Japan would dispatch Self Defense Forces there to participate in peacekeeping, so they of course welcomed the decision.

Nevertheless, the majority of Asian countries still have complex attitudes. On the one hand, they hope Japan will provide funds and technical assistance and further contributes manpower to promote Asian stability and development; on the other hand, they worry that Japan may dispatch troops abroad under the name of peacekeeping for the United Nations since it has an unglorious history of invading neighboring countries and until now, it has not made a full self-examination. After the PKO bill was passed, people gathered in front of the Japanese Embassy in Seoul, ROK, to oppose it. They assailed the bill as

"staging a comeback for Japanese imperialism." In Singapore, the greatest worry was whether Japan will become a military superpower once again. An Australian official said that Japanese forces are not welcome there until Tokyo apologizes for its behavior in World War II.

Frankly speaking, under the situation in which Asian countries still harbor feelings of suspicion and alarm over Japan, even if Japan dispatches more people

abroad, this will not necessarily allow it to realize its original intention of gaining political influence. People have to wait and see whether Japan will do everything it can to strictly limit PKO activities to the non-military arena; whether it can avoid dispatching SDF troops to Asian countries and regions, especially to those that it has invaded in the past; and whether it is willing to do a deep self-examination of that unglorious period of its history.

National Affairs, Policy

Study Group Views Causes of Economic Fluctuations

93CE0036A Beijing GUANLI SHIJIE
[MANAGEMENT WORLD] in Chinese
No 4, 24 Jul 92 pp 38-52

[Article by the Chinese Macroeconomic Study Group: "Exploring the Causes of Economic Fluctuations in China." The group consists of Liu Guoguang (0491 0948 0342) and Li Peng (2621 2590), consultants; Zheng Jiaheng (6774 1367 0077), group leader; Zhang Zhongji (4545 6988 1015)]

[Text] *If we want China to achieve steady, sustained, and smooth macroeconomic development, we must have a correct understanding of the country's economic fluctuations. The authors of this article have amassed much information and have made an in-depth probe into the causes of China's economic fluctuations. It is their opinion that the unbalanced increase in total supply and total demand, the poor industrial structure, poor efficiency, unsound macroeconomic control and regulation mechanisms, erroneous economic development guiding ideologies and strategies, and the defective economic system are the main causes of China's economic fluctuations, and the authors also go on to make in-depth and concrete analyses of these factors.*

From the point of macroeconomics, steady economic development is determined first and foremost by the balanced increase in total supply and total demand. Society's supply-demand equilibrium is not just a quantitative matter; it also involves structure, economic efficiency, and macro regulation and control. These aspects in turn are closely linked to the economic development guiding ideologies, developmental strategies, and the economic system within a definite period of time. Thus, to analyze the severe ups and downs in China's economic development, we must conduct systematic studies and in-depth analyses of the above issues.

I. Unbalanced Increase in Total Supply and Total Demand: The Direct Economic Cause of Fluctuations in China's Economic Development

In a modern society where the relationship between commodities and money is well established, the immediate goal of production is to satisfy the demands of the end users as represented by the amount of money in the economy. Production increase is the basis whereby demands can be satisfied, and reasonable increase in demand is the main impetus behind increased production. In a normal situation, brisk demand and vigorous production will lead to a corresponding increase in the economic growth rate, and lack of demand and slowed production will lead to a corresponding decrease in the economic growth rate. Despite this, more social demand is not necessarily better. On the one hand, society's demand is not the only determining factor in production increase. There are other constraints posed by society's productive capacity and available resources at a given

time. When the actual production level is close to society's maximum productive capacity or to the limit of available resources, further increase in demand will not stimulate further production increase. On the other hand, while society's total demand regulates the rate of production, it also affects the price level in the market, and if demand is increasing too fast, it can lead to inflation and adversely affect the people's livelihood and social stability. Thus to maintain steady economic growth, we must keep society's total demand growing at a reasonable rate, but at the same time, we must strive to increase society's total supply by increasing labor productivity.

1. Investment Demand and Consumption Demand: Two Critical Factors as Total Demand Fluctuates

(a) Investment demand: the most volatile component in the country's total demand.

History shows that investment demand is the most volatile and the most influential component in this country's total social demand. It is also the most active factor when total demand changes. Under normal circumstances, fluctuations in investment demand always precedes the changes in total demand. A change in investment can have a major impact on society's total demand as well as total supply.

In terms of the relationship between investment and total demand, investment is a part of total demand. Any change in investment demand will necessarily lead to change in total demand. Data show that between 1982 and 1990, investment demand accounted for an average of 33 percent of society's total demand. Prior to that time, because there was little export demand, investment demand might have accounted for a even greater part of society's total demand. Investments are an integral part of the major economic sectors. First, increased investment can directly spur the expansion of industrial production and the construction, post and telecommunications, and the transportation industries. Second, through the reproduction cycle, a substantial portion of an investment is turned into consumption demand, which in turn causes consumption demand to change and produces an effect on the business, restaurant and service, industry, and transportation and other sectors. From the point of the relationship between investment and society's total supply, increasing investment is the most important means to increase society's total supply capability and in turn is a key factor affecting society's total supply.

Even though investments have the same effects on society's total demand and total supply in terms of direction, more investment demand is not necessarily better. On the one hand, increased investment does not have the same effects on supply and demand quantitatively and does not affect both concurrently. Increased investment always increases demand first (including the

demand for means of production and means of sustenance). It is not until after the investment projects are completed and go into production do they generate supply or supply capability. On the other hand, even more important is the fact that while investment increases society's wealth, it also consumes society's wealth, and consumption always precedes contribution. At any given time, society's total wealth is limited, and so there must be a reasonable limit to investments so as not to jeopardize the normal increase in consumption. If there is substantial increase in investment over an extended period of time, and if the investments are not particularly efficient and not profitable, then those investments will consume much of society's wealth but generate little wealth in return, and this will bring supply-demand disequilibrium, and if this happens, the only way to secure materials and funds for investment will be either to reduce consumption (as we did during the Cultural Revolution era) or go on deficit distribution (as we did during the "Great Leap Forward," the "Great Leap Westward," and during the 1984-1988 period). The former inevitably leads to serious distortion of the economic structure, and the latter leads directly to inflation. Eventually both will undermine the nation's smooth and steady economic development.

The most active element in investment demand happens to be fixed asset investment. Between 1982 and 1990, fixed asset investments accounted for an average of 73.6 percent of all investment demands and 24.3 percent of the total demand. Based on the 1987 input-output schedule, every 100 yuan of fixed asset investment would turn into 40-42 yuan of consumption demand. Because of fixed asset investment's dual effects on society's total demand and total supply, all previous severe fluctuations in China's economic growth were led by fluctuations in fixed asset investments. A surge in fixed asset investments brings accelerated economic growth and a plunge in fixed asset investments (investment cut) causes the economy to skid. Thus how to tailor the scope of fixed asset investment to suit the objective needs of economic development while striving to increase the efficiency of fixed asset investment is an important issue in ensuring the coordinated and steady development of the economy.

(b) Consumption demand: An important factor in maintaining steady economic growth.

Data showed that consumption demand accounted for an average of 56.7 percent of society's total demand between 1982 and 1990 and made up the largest part of total demand. Out of the total consumption demand, 80.2 percent was personal consumption (including the peasants' consumption of goods they themselves produced) and 19.8 percent was collective consumption. Because consumption demand makes up the largest part of society's total demand, it also has the most impact on the nation's steady economic growth. In the 40 years since the founding of the PRC, as the economy grew and the living standard rose, the effects of consumption

demand on the economy have displayed different characteristics at different stages:

Before the "Cultural Revolution," because economic construction had only just begun, the productive forces were backward, consumption was at the lowest level where people were just trying to solve the most basic food and shelter problems, the living standard was low, the range of consumer goods was narrow, and consumption potential was very limited. Consumption demand at that time was focused mainly on basic everyday essentials. At that level of economic development and consumption, most of the consumption was determined by the production and supply of basic daily necessities, and the most important means of maintaining supply-demand equilibrium was to restore and develop agriculture and the production of everyday goods to satisfy the people's basic needs. Furthermore, in the early days of the PRC, collective consumption accounted for a relatively small part of the total domestic consumption; people had simpler habits, and society's collective consumption had minimal active effect on the economy.

As the economy developed, the effects of consumption demand on the national economy began to increase. During the "Cultural Revolution," however, guided by erroneous ideologies that opposed any kind of material interests, the wrong consumption policies were implemented. Wages and prices were frozen over an extended period, and a movement to cut the "capitalist tail" was introduced in the rural areas. They artificially suppressed the normal increase in consumption demand, so that in those years, the effects of consumption demand on economic growth were never fully revealed. But artificial tightening of consumption demand does not mean that consumption demand has no active effect on the economy. In fact, looking at the "Cultural Revolution" period as a whole, the prolonged tightening of consumption had led to the lack of effective demand, and for this reason, we had to stimulate massive increase in investment demand in order to spur economic growth. This produced a distorted development in the demand structure, which in turn created a distorted supply structure, and as a result, there was serious dislocation in the economy's internal relationship. The facts in this period of China's economic history proved from the reversed side the importance of maintaining normal growth in consumption demand.

Since reform, people have criticized the erroneous "leftist" thinkings at the ideological and economic fronts in the earlier period. We have implemented an economic policy of reform and opening up, broken the bondages and restrictions in the economic realm, and have restored consumption's proper role in the nation's economy to give play to consumption demand's effects. In 1990, the nation's per capita consumption has risen to 714 yuan, from 175 yuan in 1978, a 1.07-fold increase at constant prices. At year-end, the urban and rural population's per capita savings has reached 615.2 yuan, compared to 21.9 yuan in 1978, a 27-fold increase at current prices. As the living standard and the consumption level rise, the problem of balancing consumption supply and demand also takes on a new look and new

substance: One, the quantitative equilibrium problem is no longer the problem of relative lack of demand but has to do with an economy that is overheated and sluggish at the same time. Because we have eased control over consumption demand by too much at the macro level, and at one time we also made the mistake of stimulating consumption, and as consumption demand soared, investment demand and consumption demand became bloated, and prices skyrocketed, creating another round of abnormal economic fluctuation. Two, the structural balance between consumption supply and demand has become a growing problem. As the living standard rises, the consumption pattern becomes much richer and more colorful. The old homogeneous pattern is gone. Consumption demand not only has to be satisfied in terms of quantity but also in terms of composition, and keeping the latter aspect balanced is increasingly important. In particular, once the basic food and shelter problem is solved, the conflict between consumption-mix and production-mix increasingly becomes the leading cause of structural conflict, and its importance is no less than that of the conflict between basic industries and the processing industry.

(c) Export demand: A growing factor.

Before reform, China's export demand accounted for only a small part of society's total demand. In 1978, China's exports only accounted for 4.7 percent of its GNP. Because of the small export volume, export demand had little effect on society's total demand. Since reform, with the rapid increase in China's foreign economic and trade contacts, the change in export demand has been playing a bigger role in affecting the total demand (in 1989, China's export value accounted for 12.3 percent of the GNP, rising further to 16.9 percent by 1990.) The rapid development of export trade has made export demand an important factor in changing society's total demand.

2. Agriculture: An Important Supply Constraint

The balance of total supply and total demand is decided simultaneously by both supply and demand. Breaking down the total output value by sector and in terms of growth, the nonagricultural sector is playing an increasingly bigger role in the national economy, and it also tends to be more volatile than the agricultural sector. But this does not mean that the changes in the nonagricultural sector is the most important factor determining the changes in China's total supply or that the key to steady supply lies in stabilizing the development of the nonagricultural sector first. To the contrary, historical facts since the founding of the PRC tell us that the above figures only reflect the superficial problems. At the current level of development of China's productive forces, of all the components of society's total supply, it is still agricultural production that has the most profound impact on the nation's stable economic growth.

First, at the current stage of social development, agriculture is the most important sector, providing basic sustenance for society. China is a low-income nation with a large agrarian population. Agricultural products make up a major part of the people's consumption. Since reform, the living standards in China's rural and urban areas have improved significantly, but despite that, in 1990, food still accounted for 54.2 percent of the per capita expenditure on commodity purchases among urban dwellers, and in the rural areas, food accounted for as much as 59.3 percent of the per capita consumption expenditure.

Second, because China's industry is primarily low grade, agriculture and the agricultural products processing industry are the main sources of this country's accumulation. Data showed that in the 38 years from 1952 to 1989, the state had raised 740.5 billion yuan in net accumulation from the agricultural sector through agricultural taxes, industrial-agricultural product price scissors, and other direct and indirect means. This amounted to 22 percent of the total fiscal revenues for the period. Specifically, from 1952 to 1957, the agricultural sector accumulated a net of 47.5 billion yuan, accounting for 30.9 percent of the period's total fiscal revenues, and from 1959 to 1978, it accumulated 407.5 billion yuan, accounting for 21.3 percent of the period's total fiscal revenues.

Since reform, in the wake of rapid economic development, the nonagricultural sector's ability to accumulate and contribute to the nation's economic construction has improved significantly. In 1990, 65.4 percent of the national income was generated by the nonagricultural sector, but a large part of the net accumulation (referring to the difference between each sector's income available for accumulation and the actual accumulation) generated by the nation's nonagricultural sector is still related to agriculture or agricultural products. Take industry for example. Industry is the sector that generates the most national income. In 1990, the net industrial output value accounted for 45.8 percent of the national income, but 29.8 percent of that actually came from the light industrial processing industry which uses agricultural products as raw material.

Thus it is clear that agricultural production not only directly constrains the increase in society's effective supply but, in the existing economic structure, it also determines the economy's ability to accumulate. If agricultural production increases, society will have ample effective supply, economic accumulation capability will be strengthened, the investment scope can be expanded, and the economy can sustain a higher growth rate. But if agricultural production slips or stalls, there will be little increase in society's effective supply, its economic accumulation capability will drop, and in order to sustain supply-demand equilibrium, we must control the investment scope and the increase in society's total demand, and economic growth must slow down. Of course, the nonagricultural sector also plays a very important role affecting the change in total supply, especially because

industry tends to lead the other sectors. We cannot overlook its impact on the modernization of technologies and equipment and on improving the quality and the mix of goods that make up society's total supply. But because the growth of the nonagricultural sector to a very large extent is constrained by society's total demand and resource availability, it has not become an independent factor affecting the change in total supply. In other words, fluctuations in the nonagricultural sector to a large extent is a reflection of the change in society's total demand and fluctuations in agricultural production. "Agriculture is the foundation of the national economy." Well into the foreseeable future, a strong agricultural sector will continue to be the key to the sustained and steady development of China's economy.

II. The Poor Industrial Structure: A Key Factor Undermining the National Economy's Coordinated and Steady Development

It is very difficult to analyze the conflict between the output-mix and the demand-mix by looking directly at the statistics. One reason is that it is very difficult to use numbers to accurately describe potential demand—represented by the existence of purchasing power. Even a rough estimate in terms of investment, consumption, and export demands which are the most advanced classification is not easy. But without these data, it is difficult to analyze the conflict between the production-mix and the mix of goods people really want to buy, because most demand indicators—such as how the national income is spent—only reflect actual demand. In other words, regardless of whether people are satisfied or not, the utilization of national income tells us that, structurally, society's demands have been met. Another reason is that where there is international trade, mismatched supply-demand mixes can be remedied through international product exchange, and even if there are differences between the domestic supply-mix and demand-mix, it is difficult to draw any meaningful conclusion. Thus, we must analyze the equilibrium of supply-demand structure from a different angle. That is, as the economy develops, we can analyze the more serious problems in the existing industrial structure that have substantial impact on the economy's stability. From the point of maintaining stable economic development, the main static and dynamic problems in the industrial structure are manifested in the following areas:

1. Basic industries' shakey foundation is incompatible with the needs of the economy's stable development.

Basic industries refer to agriculture, water conservancy, energy, communications, and important raw materials industries. To ensure smooth and steady economic development, the basic industries not only must supply sufficient basic goods for the other economic sectors but their own structures must change as society's demand-mix changes. For this reason, we must make sure that there is sufficient investment in the basic industries. Below we will look at our investments in the basic

industries since the founding of the PRC: Since the founding of the nation, China's agricultural fixed asset investment as a percentage of its total investment has been out of line with agriculture's status in the national economy. Net agricultural output value accounted for around 50 percent of the national income in the First Five-Year Plan period, around 40 percent in the Second Five-Year Plan period, around 45 percent during the Third Five-Year Plan period, and generally around 35 percent in the years that followed. In contrast, agricultural investment accounted for 7.1 percent of the fixed asset investment in the ownership by the whole people system under the First Five-Year Plan, rising to 11.3 percent and 17.6 percent respectively under the Second Five-Year Plan and in the three years of adjustments that followed (mainly due to a fairly substantial increase in investment in farm water conservancy projects that began in 1960). Agricultural investment remained at around 10 percent from the Third Five-Year Plan period to the Fifth Five-Year Plan period. Beginning in 1981, however, the percentage of agricultural investment fell every year: It dropped to 9.3 percent in 1980, 5.1 percent in 1981, 3.3 percent in 1985, and in the first three years under the Seventh Five-Year Plan, investments fell to below 3.1 percent, which approximated the rates of the highly developed nonagricultural European and American nations. Between 1953 and 1985, investment in capital construction of aid-agriculture industries (including chemical fertilizers, pesticides, farm machinery manufacturing and repair) in the ownership by the whole people system came to 35.56 billion yuan, accounting for 6.5 percent of the total industrial capital construction investment in the ownership by the whole people system, or around 3 percent of the total capital construction investment, which obviously is a very small percentage. This production method, which only emphasizes output, but ignores input, has ruined the means of agricultural production; the quality of the ecological environment has badly deteriorated, and agricultural production has lost momentum.

What is noteworthy is the fact that the percentage of agricultural investment has fallen even faster since reform. Of course, this sharp drop in agricultural investment as a percentage of all capital construction investments in the ownership by the whole people system has a lot to do with the diversification of agricultural investment entities in the reform process. For example, some former state-run farms have been contracted out to the collectives or individuals, and so the corresponding share of investment must be made by the agricultural workers themselves. But such sharp drop in agricultural investment cannot be explained by the change in ownership system alone. It also demonstrates the fact that since reform, even though we have done much to release the huge hidden rural productive forces and develop agricultural production, we have not yet soberly recognized the basic pattern of lack of agricultural investment.

The development of the energy resource and raw materials industries has not kept up with the needs of the

nation's economic growth. Like agriculture, energy and raw material industries are the mainstay industries in the nation's economic development. But since the founding of the PRC, the development of the energy and raw materials industries has been less than satisfactory and has fallen far short of the nation's objective economic needs.

First, in terms of output, the increase in China's energy and raw materials production has not kept up with the nation's economic growth. The processing industry has been developing too rapidly while basic industries lag behind. Second, from the point of investment, compared to the major developed nations in the world, investment in energy and raw materials industries accounts for a relatively small share of the nation's total industrial fixed asset investment. Except under unique conditions, the steady increase in energy and key industrial raw materials production can be guaranteed only by ample investments in these industries. Energy and industrial raw materials production is made up of two parts: one part is in the excavation industry; the other in the manufacturing industry. Because it has been difficult to obtain relevant data from the state, to facilitate international comparison, we have lumped the energy and raw materials sectors in the excavation and manufacturing industries together and treat them as one whole energy and raw materials industry. From 1981-1985 (the Sixth Five-Year Plan period), China's investment in the energy and raw materials industry accounted for 55.1 percent of all industrial fixed asset investments. Compared to the United States, Japan, West Germany, and Great Britain in the 1970's, this is a median level: lower than the United States and Great Britain but higher than Japan and West Germany, which seems quite satisfactory. But further analysis tells a different story: First, total investment in the energy and raw materials industry is constrained by a country's own resources. If a country is well-endowed, investment in the energy and raw materials industry will account for a greater share of all investments in the excavation industry, and vice versa. The United States and Great Britain are fairly well endowed, and their investments in the energy and raw materials industry account for a larger share of their total industrial investment compared to this country's, and Japan and West Germany are less well endowed and tend to invest less. But if we exclude the excavation industry which is not a comparable factor and look only at energy and raw materials industry as a part of the manufacturing industry, our investment only came to 30.2 percent under the Sixth Five-Year Plan, which was below the level of all of the above four nations in the 1970's, and for the energy industry in particular, the gap was even wider. Second, China's production technologies are low-standard, and even with the same amount of investment, the resulting supply and demand for energy and raw materials supply-demand will still differ. Under modern-day conditions, the productive forces' standard is measured in two ways: One, the same amount of input can generate different amounts of output; two, the other sectors' energy and raw materials consumption may

differ. For nations with low-standard technologies, the same amount of input may generate a relatively small amount of productive capacity, and the other sectors' level of energy and raw materials consumption can be fairly high, and so although energy and raw material productions may be increasing fairly rapidly, the actual supply-demand may still be tight. Conversely, in the technologically advanced nations, even though they may lack the resources to produce energy and raw materials, because of their efficient use of energy and raw materials, they may have ample actual supply. Third, the Sixth Five-Year Plan period marked a period of fairly smooth economic development after the reform and was also a unique period in China's economic development. It was a period when we tried to right the wrongs in our economic undertakings, and we paid special attention to investing in the energy and raw materials industries. Those investments as a percentage of the total industrial investment reached a level higher than the average level in the previous 31 years. But if we look at the average level since the founding of the PRC, we will find that China's investment in energy and raw materials production lagged even further behind that of the major western nations. Lastly, from the point of energy and raw materials utilization, China's low utilization rate further exacerbates the conflict between energy and raw materials production and the country's economic development. In short, constrained by the investment level and the technological standard of production, the failure of China's energy and raw materials industries to meet the needs of the smooth and stable economic development is the important "bottleneck" constraining the nation's economic development.

The development of the communication and transportation industries lags behind the overall development of the nation's economy: In an economic development process in which great, socialized production is the goal, the development of communications and transportation industries is an important factor limiting the overall level of economic development. As far as the more backward regions are concerned, communications, transportation, and post and telecommunications have become the most critical factors in their regional economic and cultural development. China's existing communication, transportation, and post and telecommunications capabilities are far from meeting the needs of its economic development. They are still a handicap and are the "bottleneck" sectors in the country's economic development. First, the transportation and post and telecommunications industries account for a relatively small share of the national economy. In 1990, the net output value of the transportation and post and telecommunications industries accounted for 4.9 percent of China's national income, a rate lower than that of the major Western nations' in the 1960's and the major socialist nations' in the 1970's. By 1988, we had an average of less than one telephone per 100 people in the urban areas, which was far short of the needs of economic development and international exchange. Second,

investment in transportation and post and telecommunications is inadequate. The transportation and post and telecommunications industries need large infrastructure, substantial investments, and a long construction period. If they are to keep abreast of the rest of the economy, we must make substantial investments. But between 1952 and 1990, only 13.9 percent of the capital construction investments in the ownership by the whole people system was spent on transportation and post and telecommunication, which hardly kept up the needs of the basic industries. Third, the existing transportation and post and telecommunications capacities are saturated; the facilities are backward, aging, and are working beyond their capacity.

2. The processing industry, especially the heavy machinery processing industry, is overdeveloped.

Before reform, the grossly overdeveloped heavy industry created many problems hampering the smooth and steady development of the national economy. Guided by the ideology that gave preference to the development of capital goods, and adding the demands of war production on the development of heavy industry, China's industrial development leaned too heavily toward heavy industry. Comparing 1978 to 1949, the accumulation of heavy industry has increased 90.8 times, increasing at an average rate of 16.9 percent a year, while light industry's accumulation has increased 19.8 times, at an average rate of only 11 percent a year. Amid heavy industry's rapid growth, the manufacturing industry grew especially fast: Comparing 1978 to 1952, the accumulation of the excavation industry has increased 13 folds; the raw materials industry, 20.1 folds; and the manufacturing industry, 39.9 folds.

Of course there was nothing wrong with developing heavy industry in the early days after Liberation; it suited the basic national situation at that time. But the prolonged overdevelopment of heavy industry produced a distorted economic structure which undermined the smooth and steady development of the economic. Spurred by heavy industry's high rate of growth, in 1978, China's manufacturing industry's net output value accounted for as much as 41.2 percent of the GDP, which not only exceeded by far the average level of about 18 percent for most developing nations at that time but even exceeded the average level of about 23 percent for most upper-middle income (referring to per capita GNP; same below) nations. Normally, there is a close relationship between per capita income and a nation's total demand-mix and the corresponding supply- (output-) mix. In low-income nations, the people's demand is made up primarily of daily necessities, and so the development of the manufacturing industry should primarily emphasize light industry, supplemented by heavy industry which serves the development of light industry. As the income level rises, the people's demand for expensive durable goods will increase, and the demand on heavy industry will also increase. China's per capita income has always been fairly low, and things were especially bad in the 1970's, but China's heavy industry

played almost just as important a role in the national economy as some well-developed nations, which resulted in serious mismatch between the basic demand mix and basic supply mix. The obvious problems created by the overdevelopment of heavy industry were apparent in two ways: One, the development of heavy industry consumed much of the national income, leading to inadequate development of the other economic sectors and industries that catered to the people's consumption needs, and as a result, the production of domestic consumer goods fell far short of the people's demand, leaving an unbridgeable gap. Two, the heavy industrial production structure generated surplus goods and excess productive capacities in some areas. China's heavy industrial system, especially the manufacturing industry, was very inadequate in serving the needs of consumer goods production in terms of technology and equipment, productive capability, and production organization. Since reform and opening up, the party has shifted the focus of its work onto the economy. Increased demand for civilian production and the relative lack of demand for arms production force the heavy industry to switch to the service track. But as described earlier, so far the readjustment of heavy industry's internal structure still has not kept abreast of the changing situation and as a result, on the one hand, heavy industry is still unable to support domestic economic construction, and meanwhile, because of the low technological standards and poor quality, within the heavy industry, the manufacturing industry has a lot of idled productive capacity and machinery and equipment, and surplus goods are piling up. Because we have been slow to readjust the product mix, a fairly high percentage of China's heavy industry are perpetuating themselves, which further exacerbates the conflict between the supply and demand of energy and raw materials.

Since reform, while the original problems with the heavy industrial production structure are still unsolved, we have been facing a trend of reckless overproduction of consumer goods. In the wake of reform and opening up, and as the party's work focus shifted, the production of consumer goods which had long been suppressed began to regain its vitality. In particular, as production developed, the income level began to soar, and demand for consumer goods kept on increasing, accelerating the rate of increase in the production of consumer goods. Although the increase in production of consumer goods has changed the old improper industrial structure, guided by the false impression of huge demand created by the people's panic buying because the price of consumer goods kept on rising in the last few years as the economy overheated, it has also led to overexpansion and has created a new round of structural disequilibrium: One, some consumer goods' productive capacity has exceeded the nation's ability to supply the necessary resources, resulting in an imbalance between the expanded productive capacity and the source of capital goods. Two, some consumer goods' productive capacity has exceeded society's normal demand capacity, resulting in supply-demand disequilibrium. Three, the

production of some consumer goods which should be fairly centralized (the production of household electrical appliances in particular) has become decentralized; the production scope has been reduced, and structurally, the different regions are becoming too similar, which increasingly affects the proper use of resources and prevents the improvement in production technologies.

3. The construction industry has not reached the status of mainstay industry and is not given full play in the national economy. This not only hinders the improvement in energy supply, communications, urban infrastructure, and other bases of economic development, but also limits the outlets for the people's money and increases the pressure on the stability of the consumer goods market.

4. Underdevelopment of the tertiary industry not only restricts the progress of economic development but also undermines the stability of the people's economic life.

Before reform began, the tertiary industry was very backward. Since reform, things have begun to change, and the tertiary industry has begun to develop. Comparing 1990 to 1978, China's tertiary industry's accumulation has increased 2.15 fold; it is the fastest growing of the three industrial sectors. Despite this, China's tertiary industry still only accounted for 27.2 percent of the GNP in 1990, compared to more than 32 percent share in other low income, developing nations and more than 50 percent share in the moderate income nations in the same period. An underdeveloped tertiary industry has the following ill effects on the nation's economic development: (a) The people's consumption range tends to be very narrow. This is reflected in the people's consumption mix, which is characterized by a disproportionate amount of consumer goods and very little nonconsumer goods, which is clearly wrong. By 1990, the purchase of consumer goods still accounted for more than 90 percent of the urban population's total expenditure, while spending on nonconsumer goods continued to stall. (b) It exacerbates the unemployment problem and obstructs the movement of the labor force between different sectors. Developing the tertiary industry is an effective means to absorb society's labor force. Since reform and in the wake of the rapid development of the tertiary industry, employment in the tertiary industry has soared. Between 1978 and 1990, employment in the tertiary industry has increased 1.42 fold, making it the fastest growing among the three industrial sectors. But despite that, the tertiary industry only accounted for 18.6 percent of the total employment in the three industrial sectors in 1990, which was still too low. A slow-growing tertiary industry also hampers the movement of the labor force from the primary and secondary industries and the urbanization of the rural industrial structure. (c) Within the tertiary industry, the development of communications and transportation, post and telecommunications, finance, and insurance industries is an indispensable part of modern society and economy. Without the normal development of those industries, it is impossible to modernize the national economy.

5. The homogeneous regional industrial structure makes it difficult to give play to the regions' "comparative advantages."

The regional distribution of industries is another important aspect affecting the overall economic efficiency. Everybody knows that there are "comparative advantages" among nations, and similarly, within a country, there is also the issue of "comparative advantages" in the regional distribution of industry-mix. If the regions set up their industrial systems according to the comparative advantages they have in local economic resources to give play to their superiorities and avoid their disadvantages, as well as to exchange major products with other regions, then we will be able to achieve optimal allocation of resources within our own country, and the regions will be able to maximize the benefits in this kind of production and exchange. Looking simply from the economic point of view, since the founding of the PRC, we have made two major mistakes in the regional distribution of industries: One was made in the pre-reform "three-line" setup, and the other is the reckless, redundant regional constructions in recent years.

In the mid-1960's, because of the miscalculation about the threat of war, China implemented a "Third-line" plan based on the guiding ideology of the construction of a strategic rear area, and began to move massive human, financial, and material resources to the interior and the mountain regions, spending billions of yuan in the remote "mountains, scattered areas, and caverns" to build the "third line." From the economic perspective, the construction of the "third line" committed two serious errors: In the short-run, the construction of the "third line" clearly caused investments to swell, so that the economy which had just been stabilized and smoothed out after three years of readjustment began to overheat again. In the long-run, construction of the "third line" caused the pattern of regional industrial distribution to deteriorate and reduced resource allocation efficiency: First, massive investments in industries, especially in arms production, prevented the other sectors and industries from increasing their economy-oriented productive capabilities. Second, setting up large enterprises in the remote interior and mountain regions only exacerbated the energy and transportation problems and other structural shortages. Third, most of the fundings for the construction of the "third line" came from the first- and second-line region economic construction funds, and massive investments in the "third line" regions delayed the infrastructure construction and the development of basic industries in the first- and second-line regions which had already begun to develop some productive capability and economic scope, and this prevented the normal economic development of the eastern and central regions.

Since reform, society has generally paid more attention to the regional distribution of industrial mix and has made great strides in the study of regional distribution theories and practices. But economic separatism over

regional interests stemming from administrative division of power has made regional adjustments of the industrial structure impossible, and in some areas, things have further deteriorated. This is seen especially in the redundant and reckless constructions, which have produced similar regional industrial structures, reduced enterprise scope, and have decentralized productions.

III. Poor Efficiency: An Important Factor Undermining the Nation's Economic Stability

From the economic point of view, efficiency is the input-output ratio: less input and more output means high efficiency; more input and less output means low efficiency. But we must note that "output" here should mean effective output, that is, goods or services that meet society's needs. Products which are not marketable because they are of poor quality, variety, and grade are output but not effective output. From this perspective, effective output is measured by economic income. Thus, economic efficiency and economic return can be linked together. Economic efficiency is directly related to the smooth and steady development of the economy.

First, if economic development is inefficient, accelerating the rate of economic growth can trigger inflation. This is because on the one hand, economic growth is dependent on increased demand to give it momentum, and if economic development is not efficient, per unit economic growth will require even more input of resources, or per unit effective economic growth will require even more social demand. On the other hand, because of inefficient economic growth, much of the growth process is often accompanied by ineffective output, and in the course of producing these "goods," there is little supply but a lot of derived demand, which leads directly to overall supply-demand disequilibrium.

Second, if economic development is inefficient, and if the magnitude of increase in (or absolute level of) society's total demand should decrease for some reason, economic returns will decrease even faster than the rate of economic growth because of the sharp decrease in acceleration. From the accounting point of view, inefficient economic development means low profit. When the economy is growing rapidly, because of the huge social demand, enterprises can sell their products easily, and despite production's high per unit consumption, the high rate of growth can still a high rate of overall economic return. But if the rate of increase in demand should fall, or if demand should actually shrink, the slowed economic growth and the reduced accelerator effect will cause the drop in the rate of increase or the actual decrease in economic return to be even sharper than the drop in the rate of economic growth. In particular, so long as the factors of production cannot circulate and the superior cannot eliminate the inferior, a sharp reduction in the accelerator effect will be magnified. Such problem was encountered during the economic contraction at the end of 1985 and again at the end of 1988. In the former case, concern over the continuous erosion of profit forced us to abandon the tight policy,

and the economy soon resumed its accelerated growth. In the latter case, although we kept up with the tightened policy, the resultant negative effects, such as lower profit, were fairly serious. In short, so long as the economic development is inefficient, fast economic growth and slow economic growth can be equally troublesome. It makes macroregulation and control very difficult and has become the external element hampering the nation's sustained and steady economic growth. China's inefficient economic growth is manifested mainly in the following areas:

1. The ratio of net output value of society's total output is too low.

The ratio of net output value of society's total output (the national income as a percentage of society's total output value) reflects the comprehensive input-output ratio of the goods-and-materials-producing sectors and is also an important measurement of society's input-output ratio. If we look at the change in the ratio of net output value of the PRC's total output over time, we will discover the following: (a) Compared to other nations recognized worldwide to have achieved fairly efficient economic development, the ratio of net output value of our total output is fairly low, which demonstrates a lack of efficiency in our overall economic development. (b) In recent years, the ratio of net output value of China's total output has been falling year after year. If we cannot effectively turn this around, the price of this kind of economic growth will rise and our burden will become increasingly heavy. Between 1986 and 1990, the ratio of net output value of society's total output fell 0.66 percent a year, and at this rate, by the year 2000, the ratio of net output value of our total output may drop to 23 percent. This implies that compared to 1990, by the year 2000, a 1-percent increase in the national income would require approximately 28 percent increase in output.

2. Current asset accumulation rate is high, and the proportion of active ingredients in society's economic achievement is relatively low.

The GNP represents society's overall economic achievement in a given period. This overall economic achievement includes the net increase in the stockpile of goods, or current asset accumulation. Because economic and social development is a continuous process, and because of the special need to prepare for natural disasters and wars and so on, we must keep a portion of society's economic achievement as stockpile and reserve, such as a grain, iron and steel, and energy reserve, for used as raw material and semi-finished goods reserve to guarantee continuous production. But a bigger stockpile is not necessarily better. From the supply-demand point of view, an increase in stockpile represents a surplus after balancing the current year's total supply and demand (regardless of what method is used to balance supply and demand), or in terms of the current year's effective demand, the stockpile is the "leftover." From the allocation point of view, stockpile is unrealized value; it is the portion of society's economic achievement in the

current year which cannot be allocated. Or in other words, in theory, the increase in stockpile does not create any increase in the workers' income. From the fund perspective, an increase in stockpile implies an increase in fund utilization, and massive stockpile not only lowers the fund circulation rate but actually increases both the visible and invisible damages to the goods and materials as they are being stored. Thus, even though from the point of normal economic development a proper amount of stockpile is necessary, we do not want a large stockpile. In particular, as society's economic management standard rises, any increase in stockpile out of the current year's GNP should be kept to a minimum; otherwise it will hamper efficient economic development.

Looking at other nations worldwide, the United States, Japan, the former Federal Republic of Germany, Great Britain, Italy, Canada, and Australia and other nations' current asset accumulations generally account for about 1 percent of the GNP (some developing nations such as Nigeria and Brazil are also at this level,) and the rates in nations like Egypt and Mexico are around 2.3 percent, while India, Indonesia and others are around 4.5 percent. Between 1978 and 1990, current asset accumulation came to about 8 percent of China's GNP, clearly higher than the average rate of most nations around the world.

3. We are losing microeconomic efficiency.

Macroeconomic efficiency is not the same as microeconomic efficiency, but poor macroeconomic efficiency is always associated with microeconomic problems. Looking at the course of China's economic development in the last decade or so, in the early days of reform and opening up, because profit was handed down to enterprises and individuals and society's labor forces which had long been fettered were finally freed, the masses of workers became highly motivated, and enterprises' productivity rate was fairly high. Until 1985, the profit to output ratio and profit to sales ratio for all of China's industrial enterprises that kept independent accounts had topped 10 percent. But because the system's deep-seated problems remained unsolved, especially because China has abandoned the old system but has not developed the new stimulating and constraining mechanisms to effect macroeconomic and microeconomic coordination, that became an external factor limiting the further improvement in production efficiency at the microeconomic level. In addition, the Seventh Five-Year Plan period was plagued by inflation, the macro situation was not as favorable as that in the Sixth Five-Year Plan period, and production efficiency and economic return at the micro level fell sharply. In 1990, China's industrial enterprises at the township and above-township levels saw their profit to output ratio and profit to sales ratio fell to only around 3 percent.

Besides the technical reasons, the key to China's inefficient economic development lies in the lack of motivation among the work force in the economy. China's

economy is founded on the socialist public ownership system which gives expression to the overall interests of all workers and eliminates conflict of interests among enterprises themselves. It represents a huge historical progress. But under the old management system, the practice of eating out of the big pot and egalitarianism in allocation robbed the people of incentive for work and their creativity. We had to rely extensively on administrative measures and ideological guidance to drive the economy. Of course, administrative measures and ideological guidance are important means of economic management; no society should abandon them. But if they are made the only motive force behind the economy, their flaws will become obvious. In fact, no matter what kind of society, if the motive force behind economic development becomes the objective force, then the way the economy functions will become very passive and very inefficient.

The restructuring of China's rural economic system has greatly motivated the masses of peasants, and compared to the old days, their productivity has increased significantly. Yet, the overall result of the restructuring of the urban economic system has been less than satisfactory. Take enterprise reform for instance. We have made a breakthrough with respect to workers' income, but we have not motivated them; instead, we have created a self-inflationary mechanism with respect to demand. In terms of the economic relations, there are no state representatives inside enterprises, although theoretically, the plant supervisor or manager represents the owner of the means of production—the state. Under the current system, however, the source of income of the plant supervisors is not profit, but, like all workers, their wages are part of enterprise cost, and this in essence turns the plant supervisors into representatives of the interest group made up of the enterprise workers. This is the main reason for undisciplined behavior of enterprises. It should be pointed out that as we ease macro-regulation and control and give enterprises more power in the wake of reform, it is inevitable that enterprises will lean toward their own interests and the consumption fund will be inflated. But such biases will not motivate the workers to work harder. As long as the labor force cannot circulate freely, and as long as there is no competitive pressure and wages are allocated in an egalitarian fashion, it will be very difficult to increase enterprise productivity and profit. Thus, the lack of internal motive force is the root cause of China's low economic efficiency. How to motivate the workers is an important lesson before us.

IV. Unsound Macro Regulation and Control Mechanisms: A Factor Exacerbating the Nation's Economic Fluctuations

Economic fluctuations are caused by supply-demand disequilibrium. Supply and demand are opposites, and economic fluctuations are inevitable. But we are not necessarily helpless in the face of economic fluctuations. In fact, if we can promptly modify our economic policies as society's total supply and demand change, we can, to

a large extent, control the magnitude of economic fluctuations, and in turn reduce their damage.

Macroregulation and control can be quantitative or structural. Although there is a distinction between the two in substance, their goal is the same: To maintain sustained and smooth economic growth. But compared to structural regulation and control, quantitative regulation and control is characteristically more routine and short-termed, and is an important factor affecting short-term stability. Thus, in the short-run, macroregulation and control consist mainly of the government's regulation and control of the overall volume, that is, by constantly "tightening and easing," we can maintain basic supply and demand balance; we can use frequent but small adjustments to ward off major macroeconomic fluctuations.

Since the founding of the PRC, although many people have denied that in theory there is a regular law of economic fluctuation in the socialist economy, we have paid close attention to the dynamic process of economic development and have attached great importance to excess growth rates, inflation, deficits, credit balance and other causes and manifestations of economic fluctuations, and we have always worked to regulate economic growth (of course with the exception of periods when political movements seriously disrupted our economic work), and we have been very successful in some areas. For example, during the period of economic recovery in the early days after the founding of the PRC, during the three-year-long "readjustment period," and in the rectification and improvement effort which began in 1988, we successfully curbed vicious inflation. But we cannot deny that we are less conscientious about regulating and controlling ordinary economic fluctuations, or we should say, we only pay attention to and take action to deal with economic fluctuations only after they have become economic disturbances that threaten to jeopardize the economy. Thus, overall, China's effort to regulate and control economic fluctuations is far from adequate in dealing with the real problems. This is one of the main reasons for the frequent economic fluctuations which have caused serious damages to the PRC's economy.

If we want to regulate and control the economy scientifically and successfully at the macro level to prevent severe economic disturbances, we must establish some basic criteria to determine if the macro regulations and control measures are scientific. In our opinion, scientific macro regulation and control measures must at least meet the following criteria:

1. They must effectively prevent and control inflation.

Inflation develops and evolves over a period of time. When the economy shows signs of overheating or inflation, if we can promptly control the further increase in demand, we can stabilize the rate of economic growth and avoid serious overheating and the resultant ill effects. Conversely, if nothing is done to put on the "brakes" after the economy has begun to show signs of

overheating, and if we continue to implement an expansionary policy, it will only fan the overheated economy. Thus, we must promptly come up with the correct countermeasures to meet the actual needs of economic development and use effective macroregulation and control measures to prevent the economy from overheating and to control inflation.

2. They must be able to effectively avoid a serious economic recession.

Since the founding of the PRC, we have experienced one serious economic recession ("the three years of hardship"—1959-1961) and a 10-year long economic stagnation (during the "Cultural Revolution"). Reform and opening up has released society's productive forces, and the economy has been prosperous and has been growing, and so far we have not experienced another serious economic recession. But rapid economic growth does not mean that our present macroeconomic control and regulation system and method can effectively prevent recession. In fact, because of the unscientific macroregulation and control measures, we have paid a higher price than necessary in our effort to avoid recession. This can be seen particularly in the timing of introduction of tight policies, in the force we apply when manipulating the macroeconomic levers, and in the comprehensive and coordinated use of economic levers in the tightening process.

As soon as the economy overheats or shows tendency to overheat, we should implement a tight policy, but if the tight policy is not applied properly, it can lose its effect or lead to a recession. The latter is manifested in two ways: First, the timing of the introduction of a tight policy and the force applied to tighten the economy should depend on the actual situation and on the developmental tendency. Generally speaking, overheating is caused by excess demand, and pulled by demand, economic growth accelerates and total supply increases, but meanwhile, further price increase will digest some of the demand, and the conflict between supply and demand will ease somewhat. Accelerated economic growth causes society's real production level to approach its maximum potential productive capacity, which exacerbates the internal macroeconomic structural conflict and strengthens industries' "bottleneck" constraint, and economic fluctuation becomes inevitable. Thus, if the tight policy is introduced at the time the economic fluctuation has reached or has almost reached its peak, we will be constrained by the economy's internal volume and the "bottleneck" produced by the economy's natural structural change, and in addition, if the policy is not applied with the proper force, demand will plunge and economic growth will stall, which will increase the negative effects of the tight policy. Second, there is also a question of how much force to apply in the tightening process. This is especially true when adopting strong measures to deal with runaway inflation. At first, even though bank credit and public spending and other demands may shut down, because of the large amount of funds in circulation, demand will still be brisk, enterprises will continue to

sell their goods, and fund circulation will have no problem. As the tightening continues, the money supply will gradually dry up, the original social demand and funds will gradually be absorbed, and demand will plunge, enterprises will have trouble selling their goods, fund circulation problems will begin to appear, and the chain of debts between enterprises will tighten. At this time, if we continue to apply the tight policy with the same force, the tight enterprise fund supply will worsen, the chain of debts will grow longer and draw tighter, eventually leading to a debt crisis, and many enterprises will find it difficult to sustain production, and we will be faced with economic stagnation or even a recession. Thus, if we look at the overall situation, to be scientific, immediate steps should be taken to tighten things a little bit as soon as the first sign of overheating appears, but we should wait and see how things develop before taking further steps to tighten up even more. If the overheating seems to be under control, there is no need to go further. If after the initial implementation of the tight policy, there is no apparent change in the increase in total demand, we can then consider tightening up some more. If we are forced to adopt strong measures, we should still ease up after a while and make appropriate adjustments so as to avoid escalating enterprise debts which can drive them to a crisis situation and trigger a recession.

One of the main goals of the rectification and improvement of the economy which began in the fourth quarter of 1988 was to deal with inflation. And one of the most important means of rectification was to tighten the economy. The result of this round of rectification and improvement is well-known. Because we adopted strong measures, we quickly controlled the serious overheating and the inflationary trend, and within a year or so, we pulled the price level back to the normal range. But if the rectification and improvement tasks had been even more scientific, the results could have been even better and the price we had paid would be even smaller. As we said earlier, because the "soft-landing" of 1986 had not really materialized, the economy overheated once again in 1987, but the really strong tight measures were not introduced until the fourth quarter of 1988. It was already too late. On the one hand, inflation had reached a dangerous level and had become a serious threat to the economy. On the other hand, because of the sustained high rate of growth, the conflict between economic growth and energy, raw materials and transportation and other "bottleneck" industries had reached a critical level, and if we applied the tight policy indiscriminately with the same force everywhere at this point, the economy would necessarily slip even faster. In May 1989, the rate of increase in the industrial output value had fallen to 11.1 percent from 20.4 percent in October 1988 compared to the same month a year earlier, and it fell even further in June to 8.8 percent. Because the continuous implementation of the strong measures without appropriate easing, by mid 1989, debts among enterprises had grown to more than 100 billion yuan. Not only were enterprises whose products were not

selling, whose economic efficiency was low, whose technologies were backward, and who were targets of rectification facing cash flow problems, but even the mainstay enterprises that were producing marketable goods and were economically efficient were facing a shortage of circulating funds and were finding it difficult to keep their production going. Thus, to keep the economy from slipping even faster and enterprises' debt crisis from spreading, we should have eased the tight policy somewhat in the second quarter of 1989 so as to reduce the negative effects of the very tight measures. But in reality, we did not do so, and as a result, in September, industrial production only increased by 0.9 percent compared to the same month a year earlier, and by October, it actually fell by 2.1 percent, resulting in the first negative growth since reform began. Since the economy had already shown signs of slipping, we were forced to inject large sums of circulation funds into enterprises in the fourth quarter of 1989 to avoid a recession. But to have waited until then to ease the tight policy and to have made a mistake in the direction of easing the tight policy too turned out to be very costly. On the one hand, because debts among enterprises had reached a crisis situation, what could have been remedied by a small sum of money now required several times more money to resolve. Banks added 148.4 billion yuan in loan funds from September to December 1989 and another 273.1 billion yuan in 1990, and if we add the credit cooperatives' loan funds, the scope would be even greater. Much more loan funds were injected this time than in 1988 when we were dealing with runaway inflation, and it created a new potential inflationary element. On the other hand, because we did not make timely readjustments of the force we applied on the tight policy as needed, pressure on public finance, employment, and enterprise production soon mounted. Many more enterprises were forced to suspend or semi-suspend production (even some enterprises which should not close down were facing closure), which brought great pressure on social stability and increased the need to adjust the economic structure and smooth out the economic relations and made it much more difficult to fulfill the rectification and improvement goal as scheduled.

3. They should be able to sustain continuous economic growth.

We cannot eliminate economic fluctuations completely. One way to sustain continuous economic growth is to reduce the magnitude of economic fluctuations as much as possible and prolong the period of economic upturn as much as possible. This means our macro control and regulation measures not only must effectively prevent and control economic overheating (or inflation) and economic recession, but they must be able to stabilize the increase in demand when the economy begins its upturn after "hitting bottom," so as to prevent economic growth from picking up speed too soon (otherwise the economy will reach another peak too soon and will shorten the period of economic upturn). We have been fairly successful with our quantitative regulation and control work

in recent years and have accumulated some experience. But when it comes to being able to predict when the economy will overheat and when it will slip into a recession scientifically and to stabilize demand after the economy bottoms out, there are still many theories and practical problems we have to tackle. We must not add massive input or stimulate social demand or lift all control over demand as soon as the economy skids. They will only cause the economy to rebound too fast, which will reduce the stability of economic growth.

V. The Economic Development Guiding Ideologies, Developmental Strategies, and the Economic System: The Deep-Seated Secondary Factors Undermining the Stability of Economic Development

So far we have analyzed the causes of frequent fluctuations in China's economic development from a purely economic point of view. But this kind of analysis still leaves us with some questions: What is the cause of the sharp conflicts between total supply and total demand that have constantly plagued us in the last 40 years since the founding of the PRC? What is the reason for the serious dislocation in China's industrial structure? Why have we not been able to improve our economic efficiency? Why have we not been able to effect scientific macro regulation and control in accordance with the objective needs of economic development? Obviously, we will not be able to find satisfactory answers to these questions from a purely economic perspective. For the answers we must further analyze some of the errors we have made in our economic development guiding ideologies and developmental strategies since the founding of the PRC and look at some of the factors in our present economic system which adversely affect the economy's long-term stable development.

1. The mistakes in economic development guiding ideologies and developmental strategies since the founding of the nation

Economic development guiding ideologies refer to the basic principles we follow when developing the economy. The developmental programs drawn up at different stages under the guidance of these principles become the economic developmental strategy. The above-described functions of economic development guiding ideologies and developmental strategies mandate their important role in economic development: Scientific guiding ideology and developmental strategy can guide the national economy to embark on a healthy, stable development track. Conversely, errors in economic development guiding ideology and developmental strategy can have detrimental effects on the stable development of the national economy. The mistakes in our economic guiding ideologies and developmental strategies since the founding of the PRC can be found mainly in the following areas: (a) For too long we have made class struggle the key link and have overlooked economic construction. (b) Our economic development tends to pursue quick success and immediate profit. We are too impatient and often ignore the country's conditions as

we pursue development, thus exacerbating and even creating the fluctuations in the nation's economic development. (c) At one time we put little emphasis on opening up the country for development, and adding the foreign sanctions which cut off this country's normal economic exchange with other nations, it not only hampered our technological progress but also made it difficult for us to regulate the economy via the international markets. (d) Our economic development strategy put too much emphasis on industry, and for a long time, we implemented a policy that created the price scissors between industrial and agricultural products and a separatist policy that pitted the cities against the countryside, and so for some time, rural economic development was very slow, and in particular, fund circulation was out of line with the circulation of the labor force, and the huge rural labor force was stuck in the farms, exacerbating the problem of low agricultural productivity. (e) We put too much emphasis on production and too little on circulation and overlook the need to nurture and strengthen the markets, so that the development of circulation cannot keep up with the development of production and production does not match sales. This undermines the benign cycle of society's reproduction process, so that the products cannot quickly realize their value.

2. The systemic factors behind the bloated demands

In sharp contrast to the lack of effective demand in many capitalist nations, most socialist nations often face the problem of excess demand and inadequate supply in the course of their economic development. For this reason, the Hungarian economist Kornai has coined the term "economy of shortages" to describe the socialist economy that displays this characteristic. From the economic point of view, if total demand is constantly bloated, in order to maintain total supply-demand equilibrium, society's production must keep close to the limit of its current maximum productive capacity. At such time, the rate of economic growth is fairly high, but is extremely unstable. Because actual production is close to society's maximum productive capacity, production increase is inelastic as demand increases, and society's supply and demand can barely maintain balance. At such time, if because of further increase in demand, or if for unforeseen reasons (such as agricultural disaster) supply cannot increase anymore, and if we add a large population and a weak foundation to begin with, an unbridgeable gap will immediately appear between supply and demand, and the fragile balance will quickly be tipped, and inflation will follow at its heels. To maintain basic supply-demand equilibrium, at such time, investments and financial credit must be cut back drastically, and the economic growth rate will plunge from the peak into the valley. But if we should relax all rigid controls as soon as the supply-demand situation improves, the inflationary mechanisms within the economy will generate another peak demand wave, driving production once again back to the maximum capacity, and a new round of turbulence is inevitable. Thus, this type of frequent sharp rise

and sharp fall in the rate of economic growth is the natural companion of constant bloated demand. If we look at the history of our economic development since the founding of the PRC, we will find that demand is always bloated mainly because of two systemic factors: (a) We fail to separate government and enterprises, and in addition, the highly centralized system also allows political demands to interfere unduly with economic work; (b) there are "soft constraints" on the economy.

3. The unscientific macroeconomic regulation and control system

The so called macroregulation and control system refers to the system of economic laws, rules and regulations, and economic institutions that controls and affects the way the economy works at the macro level. The purpose of the macroeconomic regulation and control system is to solve macroeconomic problems as they occur, so as to maintain quantitative and structural coordination and guide the economy's healthy and stable development. There are two criteria in determining whether a macroeconomic regulation and control system is scientific or not: One, whether it promptly reflects the macroeconomic problems; and two, whether it adopts the correct countermeasures to deal with those problems. Since the founding of the PRC, there have been periodic severe upswings and downturns in the course of our economic development, and we have made many mistakes in regulation and control at the macro level. This means China's macroeconomic regulation and control system still have many problems. They can be summed into the following: (a) We lack the proper pricing system and effective competitive mechanisms, so that we cannot give full play to the role of market regulations. (b) The system of laws and rules and regulations is unsound and procedures are irregular; there are too many policies made by too many departments, and the policies are inconsistent, making it difficult to coordinate efforts to fulfill the goals in our macroregulation and control work. (c) We lack the necessary social protection system, which undermines the normal process of macroregulation and control.

4. Uncoordinated reforms and certain errors reinforce the improper factors undermining the stable development of the economy

The restructuring of the economic system since 1978 has released the productive forces from the shackles of the ossified mechanisms and has propelled China's economic development. Its success is world-renowned. But we must also admit that the current reform is not perfect. There are still many problems, some of which are fairly serious. Overall, the current reform concentrates mainly on the superficial problems, and we have done more to destroy the old system than to establish a new system, and to some extent, it has reinforced some of the negative factors that undermine the economy's smooth and stable development, and this has been one of the causes of exacerbated economic turbulences in recent years. All in all, many of today's reform problems can be

found in the following areas: One, reform of the micro system basically has not changed enterprises' lack of power to make management decision, to take care of their own profits and losses, to strive for their own development, and to restrain their own behavior. Enterprises' role in the economy is similar to that of the blood-producing organ in the human body. If the latter cannot make new blood, the body must depend on transfusions, and likewise the economy must depend on constant issuance of currency to sustain itself during economy growth. In the long run, the imbalanced increase between supply and demand will lead to inflation. As we said earlier, since reform, enterprise profit has been linked to the workers' income, and this has played a determining role in helping enterprises increase their labor productivity. But enterprises in essence are still "responsible only for profit but not loss" and never have to worry about bankruptcy; the workers in essence are "always rewarded and never punished" and never have to worry about unemployment. And so enterprises eat out of the state's "big pot" and the workers eat out of enterprises' "big pot"—nothing has changed. Not only that, but these practices have taken on a new form and have become a reality, and so it has been difficult to increase productivity in a substantive way. Second, the pricing system and other external relationships have not been straightened out, and enterprises do not compete in a fair environment, which dampen enterprises' enthusiasm in developing production and increasing revenue by increasing productivity. Because of the poor pricing system, there is little economic motivation for making structural adjustments, and any readjust is but superficial, or even if adjustments are made by administrative means, eventually things always revert to their original state. Third, we have not established an effective macroeconomic management system that meets the needs of the planned commodity economy. This is particularly noticeable in the weakened role of economic planning accompanied by unsound market mechanisms, and regulation and control are either stagnant or distorted. Because the role of economic planning has diminished, because the economic system and pricing system have not yet smoothed out, they have reinforced the sense of recklessness and selfish departmentalism in local economic development, so that macroregulation and control can neither exercise effective quantitative control nor scientific structural readjustments.

Summing up the above, we will discover that after 10 years of reform, China's economic system on the whole is clearly improved compared to the pre-reform era, and the economy has made great strides, but there are still many problems in the economic system. In particular, from the point of maintaining long-term stable economic development, the presence of certain problems has a very serious effect on the economy's development. In other words, if the restructuring of the economic system had been even more successful, our economic development in recent years would have been even smoother, the

level of economic development would have been even higher, and the people would have received even more tangible benefits.

We must admit that it is not easy for a developing nation like ours—a nation which does not have a well-developed commodity economy, which has a large population and low cultural standards, which is still steeped in feudal ideologies and has long been misled by “leftist” ideologies—to thoroughly restructure the economic and political systems, and it is impossible for us to succeed overnight. A decade has not been really too long. But we cannot deny that the problems that have persisted and even worsened under the present system are related to the reform itself.

First, our reform lacks theoretical preparations and overall design, and we have underestimated some of the problems that have occurred and may still occur in the course of reform. We have not taken sufficient preventative measures and are even less able to solve the problems. Not only that, but because we do not have a long-term goal for the overall reform, we cannot even come up with the proper measurements and criteria to assess many of the phenomena that have occurred in the course of reform, let alone coming up the solutions. Because different people look at the various problems differently, in solving the same problem, there are often different approaches, and the methods may contradict each other. With respect to microeconomic problems, because of they are often of different nature and background, there can be different or even opposite approaches to solving the same problem (the methods may be ineffective, but at least they will have no dangerous effects). But solving the macroeconomic problems is a different matter. If there is no consensus on the same problem and everybody tries to do things his own way, it not only will not help matters, it will create more chaos. In recent years, many of the systemic problems (of course this also includes problems with the way the economy works) in fact are problems resulting from the lack of clear measurement and evaluation standards. The regions and departments, in fact, have been dealing with all kinds of problems according to their own opinions, and as a result, there are many conflicting and even contradicting macroeconomic policies. What is noteworthy is that a few years back, because of the lack of experience, we had to grope our way across the river—rely on exploratory reform measures, and the resulting problems were quite normal. But the restructuring of the economic system has gone through 12 solid years since the Third Plenary Session of the 11th party Central Committee, and if we still have not come up with an overall reform program, if we still are “groping our way across the river,” then the price we paid for all the reform mistakes made in the past would have been wasted, and this will be even more detrimental to our future economic tasks.

Second, in the course of specific reforms, we have often been too eager for immediate success. Overall, many reform measures and programs which are now riddled

with problems or even serious problems (such as “double track pricing” and local financial contracting) were fairly successful at first, or at least they did not produce serious problems right away. Then why the growing problems with the passage of time? The problem is that not only do we lack a well-thought-out plan, we are also too anxious for quick success in the reform process. Impatience for quick success creates two problems: First, our reform program lacks scientific design; we underestimate and fail to study the possible negative effects of reform, and when problems appear, we have no fall-back measures. Second, impatience for quick success often interferes with reform’s organic procedure, weakens the coordination and the links among different reform measures, and in turn lowers their overall effect and heightens the conflict among them.

In short, many factors contribute to the economy’s severe upswings and downturns, but the most basic cause is that the economic system itself has not developed a mechanism which automatically eliminates the serious supply and demand disequilibrium in society.

Agriculture

Key Measures To Develop Market Economy

93CE0097A Beijing NONGMIN RIBAO in Chinese
9 Oct 92 p 1

[Editorial: “Key Measures To Develop Market Economy”]

[Text] Developing a socialist market economy is China’s central mission now, and it will remain so for a long time to come. The State Council’s “Decision on Developing a Good Quality, High-Yield, and Highly Profitable Agriculture,” particularly its call for making agricultural products more market oriented, is a major step toward developing a market economy, as well as being the top event on the agricultural front now and in the days ahead. The implementation of the “decision” will play a pivotal role in further liberating and developing rural productive forces, strengthening agriculture’s stature as the cornerstone of the economy, consolidating agricultural modernization, and achieving a fairly comfortable standard of living.

Besides its concern with the quantitative aspect of production, Chinese agriculture in the 1990’s must respond to the needs of the socialist market economy by entering a new phase in which high yields and good quality will command equal attention and in which the stress is on raising efficiency. This will be a critical turning point in the history of Chinese agriculture. To accelerate the realization of “one good and two highs,” the State Council has decided to make agricultural products more market oriented and deregulate the buying and selling of agricultural products. It has already announced that “in the case of agricultural products not yet deregulated, a vigorous effort must be made to create the conditions for deregulation so that there is a direct link between crop

production and market demand, thus spurring the development of an agriculture that is of good quality, high yield, and high profits. That is to say, the state is determined to gradually deregulate the buying and selling of agricultural products, as well as their prices, and to establish a new mechanism to regulate and control the rural economy. This is a major move, a declaration that our 40-year-old state monopoly on the procurement and selling of agricultural products is coming to an end. This piece of reform, which is of historic significance, symbolizes the switch of the production, buying, and selling of agricultural products to a market economy. In other words, agriculture is entering the brave new world of a market economy."

Commercializing agricultural products and making their buying and selling market-oriented are inherent in the broad trend of reform. According to government plans, grain prices and the buying and selling of grain will gradually be deregulated across the nation, with the exception of a few impoverished areas, in two to three years. Deregulate would come first in economically developed areas along the coast, and then work its way to the interior. In the course of deregulation, many new conditions and new problems will certainly occur. This is why the State Council has told the localities to decentralize decision making, adapt measures to suit local conditions, and proceed energetically but steadily. It also has put forward specific measures to protect grain production and stabilize the grain market, and this must be carried out carefully, hand in hand with reform.

We should clearly understand that now that the agricultural prices, as well as the buying and selling of agricultural products, have been deregulated, prices will not rise by much; they may even decline in some cases, owing to the structural surplus of agricultural products in recent years. The notion that peasants' earnings would jump and agriculture would be greatly revitalized as soon as agricultural prices were deregulated is unrealistic. The history of 14 years of reform makes it clear that when deregulation of a product coincides with a plentiful supply, society easily adapts itself to the change but producers have to pay a price. On the other hand, when deregulation coincides with a shortage, producers are the immediate beneficiaries while consumers find the change burdensome. In the interest of successful reform, we have tended to pick a period when supply is plentiful to deregulate a product. A few years ago, our understanding of issues relating to planning and the market had yet to be deepened, we repeatedly made the strange mistake of deregulating prices when supplies were plentiful and reimposing control in times of shortage, to the dissatisfaction of the producers. Today the situation has changed dramatically. The latest drive to deregulate the prices, buying, and selling of agricultural products was not motivated by short-term considerations—easing the burden on the treasury—but was intended to orient agriculture toward the market, to establish a mechanism that relies on market supply and demand, market competition, and prices

in order to organize and regulate agricultural production. In other words, the purpose is to do business with peasants in actual accordance with the law of value so that agriculture becomes an industry with its own inherent vitality. When peasants organize and manage production based on market demand, thereby rationalizing the allocation of rural resources, their incomes from farming will also increase more rapidly over the long haul. This has enormous significance for consolidating agriculture's position as the cornerstone of the economy and for coordinated development in the countryside.

Some comrades worry that with the deregulation of the buying and selling of agricultural products, the output of major agricultural products may decline. It must be admitted that such a possibility does exist. But should we continue to use administrative fiat and planning to keep increasing the output of major agricultural products, and pay a price in terms of depressing peasants' incomes and wasting resources? Or should we adjust and optimize the mix of agricultural products, taking the market as the guide, in order to steer agriculture onto the road of good quality, high yields, and high profits? By choosing the latter, the State Council has answered this question unequivocally. Under the old system, we produced for the sake of producing. In the end, we could not even keep up the volume of production. Only by relying on the marketplace could we enable Chinese agriculture to keep pace with the development of the national economy overall in both quality and quantity and reach a new high, making possible a steady increase in peasants' earnings. Starting next year, the state will not make output its sole yardstick in evaluating the performance of all levels in agriculture, as it has done in the past. Instead it will create a comprehensive evaluation system putting equal stress on output quantity and economic results. This is both essential and timely.

In the wake of the development of a socialist market economy, the market is becoming the god of agricultural producers, the engine that is driving the push for "one good and two highs" in agriculture. Central to achieving such an agriculture is the establishment of a management system that combines trade and industry with agriculture and that plans production and processing based on market needs. Scientific and technological progress is the key. While scientific and technological progress is critical, stronger leadership, increased inputs, and an even broader open policy are also indispensable. The State Council has decided on a string of policies and measures in these areas. It is now up to the various localities and sectors to take effective steps to implement them in earnest.

Fourteen years of rural reform has enabled Chinese agriculture and the Chinese rural economy to develop in a leapfrog fashion. As a major strategy for jumpstarting China's rural economy, the accelerated development of a "one-good two-highs" agriculture will certainly open up a brave new world for China's agriculture and rural economy. It will position them at the forefront of both urban and rural China's drive for a socialist market economy.

Security on Railways Said Improved*OW2611135792 Beijing XINHUA in English
1243 GMT 26 Nov 92*

[Text] Changsha, November 26 (XINHUA)—Over the past year China's efforts to improve of railway security have proved effective.

From June last year to August this year the railway police cracked down on 1,678 cases and caught 2,249 criminals. Serious attacks on trains have been reduced by 40 percent and freight train robbery is under control, according to railway sources.

In Guizhou Province 3,000 militiamen have been organized to protect railway lines, trains and railway stations.

'First' Police Involvement in Homosexuality Case*93CM0027B Shanghai XINMIN WANBAO in Chinese
23 Sep 92 p 12*

[Article by Wan Jian (8001 5433) from NANCHANG GONGREN BAO: "China's First Police Involvement in Homosexuality Case"]

[Text] The acquaintance and love relationship between a female employee of a certain unit in Wuwei County, Anhui Province and a young country girl (whose identities are being concealed) developed to the point where they rented a house and began to live together this spring. The female employee dressed up as the manly husband, with a male hairstyle and male clothing, and smoked and drank like a man, while the young country girl acted like she was the virtuous wife and homemaker.

When this came to the attention of the Wuwei County police, they made plans to put the two under public security arrest for 15 days on an indecency charge, but found that they were unable to. Thus they referred the case up to the Legal Policy Research Office of the Chao Hu Administrative Public Security Department. This office was also unable to handle the case, and so referred it on up to a higher office. The national Ministry of Public Security recently responded that as there are no clear provisions on such behavior in China's current law, the reported case may not in principle be accepted for hearing, nor should the two be subjected to public security punishment on the charge of indecency. It was revealed that this was China's first police involvement in a homosexuality case.

Divorces Increasing 10 Percent Annually*HK0610104592 Beijing ZHONGGUO XINWEN SHE
in English 0811 GMT 6 Oct 92*

[Text] Beijing, October 6 (CNS)—China's divorce rate, seen nationwide, shows an upward trend growing at an annual rate of ten percent since the promulgation of the second marriage law in the early 1980s, according to an article by the Director of the Institute of Women of the Academy of Management Sciences, Ms. Wang Xingjuan.

A survey revealed that about 80 percent of divorce cases involved free-will marriage. Some 59.7 percent of divorced people were satisfied or moderately satisfied with their partner at the time of their marriage, but the initial stress on appearance and competence outstripped acceptance of their mate's personality and mutual respect, resulting in separation. Over 90 percent of respondents involved in a questionnaire on divorce said that the first five years of their marriage were a period of risk. The survey showed that despite being once in love, couples failed in companionship, lack of mutual respect and lack of equality. Marriage counselling was seen as vital for reducing the divorce rate and enhancing the status of fidelity in marriage.

Pay System for Higher Education Intellectuals*93CM0002B Shanghai HUADONG SHIFAN DAXUE
XUEBAO [JOURNAL OF EAST CHINA NORMAL
UNIVERSITY] in Chinese No 4, Jul 92 pp 10-15*

[Article by Qin Ling (4440 3781), Zhang Yongyue (1728 3057 1471), and Peng Jinguan (1756 6855 1351), edited by Shi Youwen (2457 2589 2429): "Problems and Reform Regarding the Pay System for Higher Education Intellectuals"]

[Text] The phrase higher-education intellectual refers to instructors, scientific research personnel, and cadres engaged in teaching, scientific research, and administrative work in higher education. Instructors are the most basic component. The pay and benefits of higher-education intellectuals are important manifestations of the economic and social position of intellectuals as a whole, and they are also an important issue in the development and reform of higher education. Correctly understanding and dealing with pay and benefits for higher-education intellectuals [hereafter intellectuals] is extremely significant in arousing intellectuals' enthusiasm, doing a good job of socialist education, and fully utilizing higher education in modernizing the economy.

I.

The current pay system for higher education was set up after the 1985 pay system reform. It is a new structural pay system centered around occupational pay, and includes the four elements of basic pay, occupational pay, seniority pay, and incentive pay. In the past few years, this pay system has aroused a certain amount of enthusiasm, but it also has gradually exposed several contradictions and problems. Several abuses of the former pay system can by no means be thoroughly resolved. Its main problems are prominently manifested in the following three aspects.

First, There is sluggishness in the pay system and in its adjustment mechanisms.

A. With highly centralized administration, schools lack autonomy. After the 1985 pay reform, the pay patterns for state organizations and institutions were unified. Such things as pay standards and promotion policies are

still centrally formulated and arranged by the state. Even the specific times, methods, and steps are all centrally set by the state. This type of administrative system causes the local and grassroots levels to lack room for self-adjustment and causes several problems that cannot be solved in accordance with local conditions.

B. Pay content is excessively unitary and not closely tied to the labor situation. With the current structure, because everyone's basic pay is the same, and because longevity pay is extremely small and changes to it have very little effect on total pay, only occupational pay can truly change the amount of pay. This type of pay structure obstructs the implementation of the principle of distribution according to labor and creates a disjunction between pay allocation and actual contribution. It also creates a situation where luck is more important than actual achievement, where allocation is unstable, and where normal pay increases are hard to accomplish.

C. Pay adjustment is not easy. Normal mechanisms for current pay increases have not yet been formed. No matter whether the quality of work or the unit changes, pay and benefits can only increase, not decrease. Rigidity in pay makes the state extremely cautious, individuals extremely wary, and adjustment extremely difficult.

Second, comparatively speaking, pay levels are rather low.

A. Compared to foreign countries, the relative income levels of intellectuals are too low. Although the discrepancy between mental and physical income is gradually decreasing in some developed countries, there is still a considerable disparity. According to a 1985 survey of the average weekly (male) pay done by the U.S. Department of Labor, automobile repairmen made \$310, construction workers made \$378, and college instructors made \$638 (equal to 170-206 percent of worker pay). The weekly pay of British university lecturers is 370 pounds, equal to 160 percent of the skilled workers' pay of 230 pounds, and 206 percent of unskilled workers' pay of 180 pounds. According to a 1988 survey by the Japanese government's National Personnel Authority, the starting pay of university associate professors and professors was 2.4 times and 3 times workers' pay respectively. In developing countries this disparity is much greater. The monthly pay of an ordinary worker in India is \$45-50, but for a university assistant professor it is \$125-150 and for a professor it is \$250-290. The average annual income of a Brazilian worker is 4,000-5,000 cruzeiros, but the lowest pay for a university assistant professor is 11,968 cruzeiros.

B. The pay disparity with workers at enterprises owned by the whole people has been reduced or even reversed. After the 1985 pay reform, a lowering of the pay standard for professors and associate professors caused the ratio between the highest pay for professors and associate professors to the highest pay for workers to decline from 3.32 times and 2.32 times in 1956 to 2.23 times and 1.67 times at present. The ratio of the lowest pay for associate professors to the lowest pay for workers

declined from 4.26 times in 1956 to 2.7 times at present. In recent years, when higher education has increased pay, enterprises have also increased pay. Because the differences in enterprise pay grades were rather large, the rate of pay increases was also greater than that of university instructors. At the same time, enterprises have more bonuses and allowances than higher education. Thus there is a reversal.

C. The disparity with peasant income also has shrunk or even reversed itself. In recent years, peasant income has increased rather a lot. According to a random survey of 67,000 peasant households by the State Statistical Bureau, in 1989 per capita net income reached 601.5 yuan. Four provinces (or municipalities) had a net per capita income of 1,000 yuan or more. Take Shanghai Municipality for example. The net per capita peasant income was 1,379.87 yuan, but the lowest incomes for university assistant professors, lecturers, and associate professors were 1,518 yuan, 1,860 yuan, and 2,178 yuan respectively. If one calculates a family-supported population of 0.5 per person, then their per capita income is only 55-73 percent, 67-89 percent, and 79-105 percent of peasants' per capita income.

D. The disparity with secondary and elementary school teachers' pay has declined or been reversed. The ratio of university instructors' pay to the highest pay of secondary and elementary school teachers went down from 2.3:1 and 3.98:1 respectively in 1956, to 1.34:1 and 1.71:1 now. Because secondary and elementary school teachers have longevity and team leader allowances that university instructors do not have, it causes the income disparity to be reversed.

Third, there is also a tendency toward egalitarianism in income distribution.

A. Among intellectuals, the pay disparity among various positions and position titles has shrunk. In the current pay standards, the pay disparity between high and low positions and position titles is already very small. For example, the ratio of a professor to an assistant professor is 2.19:1 and the ratio of a president to an officer worker is 3.09:1. It already is very hard to reflect the differences between them in terms of the degree of responsibility and the amount of contribution. In addition, grade promotions and pay increases are not normal, making low pay extremely pronounced. To alleviate the contradictions from inflated prices, bonuses and allowances have been increased rather rapidly. Even though in 1990 increases in bonuses and allowances were further brought under control, basic pay only makes up 50.91 percent of total pay; bonuses, allowances, and subsidies make up 46.10 percent of total pay. There is only a difference of 4.81 percentage points between the two. Because most bonuses, allowances, and subsidies are issued equally, there is more of a tendency toward equality in pay income.

B. The "plateauing" of the pay of people in the same position is extremely pronounced. The new pay system is

a structural pay system made up mainly of occupational pay. Everyone wants his former pay standards to be lower than the standard for his current occupational grade, and everyone comes in at the lowest occupational grade. Thus the pay of intellectuals is concentrated mainly at the lowest grade of occupational pay. According to a Shanghai municipal survey of personnel equivalent to professors and associate professors, those at the lowest pay grade make up 57.58 percent and 56.38 percent, respectively. Moreover, as long as the position and the position titles are the same, people in the same position and pay grade receive equal pay, no matter when they assumed the position. Thus there is the case where "four generations in the same house" and "two generations in the same house" receive the same pay, because, whether they started work in the 1950's or in the 1980's, they have the same position and title.

The problems in the pay system for intellectuals and in the corresponding income distribution policy have produced serious social consequences. First, they have caused difficulties in the livelihood of intellectuals and lower health standards, especially among middle-aged intellectuals. Because the burden of the family economy is heavier, their life is clearly hard. They often shoulder both the social burdens of teaching and scientific research and family burdens, and for a long time are put in an unbalanced situation where they have "little income and a great deal of output." This can continue to the point where they cannot maintain the simple reproduction of labor force, and there are serious problems with early decline and early death. Second, it causes a dissipation of intellectuals' energy and their enthusiasm cannot be fully aroused, weakening the coalescence and thrust of higher education. Third, it creates a drain on higher-education talent. These bad effects have already raised concern among knowledgeable people.

II.

There are many factors that make up and exacerbate problems with the pay of intellectuals. The following are four specific causes:

The first fundamental cause is the contradiction of the "new system" and the "old system" in the current form of distribution for higher-education institutions. In the operation of the economy for the whole society, no matter what kind of distribution system is established, it requires corresponding administrative systems and adjustment mechanisms. The 1985 pay reform abolished the old, graded pay system and established a structural pay system. The original intent for designing the structural pay system was to attempt, through occupational and incentive pay and by establishing a normal universal pay-raise system, to open up the disparity between mental and physical income and do away with egalitarianism. But realizing these concepts requires the total implementation of corresponding systems and mechanisms. As a first step, it is necessary to introduce competition mechanisms and selection mechanisms into the institutions' personnel and pay systems. This

requires broadening the institutions' autonomy in personnel and pay decisions. Without breaking through pay limitations, each unit would be empowered to make decisions on personnel selection and pay distribution and the state would make adjustments through its budget restraint or revenue levers. But in fact, this reform was only limited to reforming the original graded pay system. It just "reformed the system" but did not "change the system." Administratively the "old system" still exists. Neither the system for administering pay nor the adjustment mechanisms has been separated from the traditional model. The pattern where the plan determines distribution and the Ministry of Finance determines pay has not changed. This type of situation clearly leads to negative consequences. The "new system" attempts to ensure more gain for more work through implementing occupational pay, incentive pay, and a regular promotion system, as well as rewarding hard work and punishing laziness. But the "old system" also causes institutions not to have autonomy in distribution. Changes in positions and position titles are approved by upper-level administrative departments, and incentive pay must be issued in the proscribed manner, actually becoming a substitute form of price subsidies. Normal promotions, because of a lack of financial support, exist only on paper. As a result, internal distribution "plateaus" occur repeatedly, egalitarianism is exacerbated, and the income contrasts with enterprises continuously broaden.

Second, the weak points in the structural pay system based mainly on occupational pay are a direct cause of the present problems with higher-education pay. With intensification of reform, several inherent deficiencies in the current structural pay system in higher education have been exposed: A. Equating higher-education pay to that of state organizations and taking occupational graded pay as the main standard for determining pay does not reflect the characteristics of educational or teaching work. It strengthens the abuse of dividing all society into administrative levels. It also increases officials' own positions and control, and increases mechanisms to keep pay increases spread among mass organizations and government organizations. Institutions themselves are powerless to increase material benefits, and the state is powerless to deal with the created demand for huge pay increases. Thus it is hard to effectively solve the reversal between mental and physical income. B. In the structural pay system, standard pay is related to occupational pay alone, and there is no parallel system to act as a balance. The structural pay system acts as the basic variable in determining pay, and such factors as job qualification, degree of complexity, and years of service are quite negligible. Institutional positions and position titles are pyramidal, and there are always few high-level professional and technical positions at the top of the pyramid. Because the number of positions is limited and because of promotion abuses, the vast majority of very senior intellectuals have a hard time obtaining relevant positions, position titles, and pay and benefits. Thus, when compared with the people of the same age who are engaged in physical labor, there is an extremely obvious

income disparity. At the same time, occupations and occupational responsibility actually are by no means coincident concepts. Occupations at the same level can have very different occupational responsibilities. If we simply use occupation as the reference in determining pay, it will inevitably create displacement between work and remuneration and asymmetry between contribution and income. C. The structural pay system lacks the required compensation system. The compensation system guarantees the compensation function of pay and gives the relevant legal stipulation for granting monetary compensation for special expenses in addition to standard pay. Presently, institutions' structural pay does not have this type of function, and it is difficult to give timely compensation for such things as changing prices and investment of labor above the quota. This leads to a situation where income from standard pay at an institution is obviously lower than that at enterprise units. D. In structural pay the standards for some occupational pay are inappropriately designed. After the 1985 pay reform, the method of forcing down pay standards for high-level professional and technical positions and raising the pay standards for middle- and entry-level professionals and technicians was adopted, but the enterprise pay standards that they referred to were essentially unchanged. Thus, in one respect, the standards reduced the pay disparity among high-, middle-, and entry-level professional and technical personnel, a disparity that should have been there, and the standards also broadened egalitarianism. In another respect, the standards lowered the pay level of institutions relative to that of enterprises.

A third important factor causing problems in the present higher-education pay is that, during the transition from one model to the other, the macroeconomic regulation and control system has not been sound, and regulation and control capabilities have been weak. China's macroeconomic regulation and adjustment system for distribution currently faces serious friction. In one respect, the traditional adjustment system using mainly administrative methods dominates institutions' distribution of pay. In another respect, in enterprise distribution, pay is tied to economic results. At the same time, on the macroeconomic level, the financial, monetary, and legal systems and the system for overseeing and checking distribution are quite unsound; state methods for regulating and controlling the market are relatively sluggish and weak; the keys to adjusting income (such as revenue) are still within the scope of the planning system; and the state also lacks the necessary financial resources to increase investment in institutions of higher education. Thus it is difficult for the state to hold back excessive growth in the staff remuneration in enterprises, and it also is difficult for them to greatly increase the wage income of institutional staffs. It will be hard to quickly turn around the reversal of mental and physical income.

The fourth cause, the effect caused by the obstacle of social psychology, is not easily overlooked either. Since China's founding, and especially after the 1960s, because

of the influence of "leftist" ideology, it was believed that remuneration for mental and physical labor should be generally equal. Reducing the mental-physical discrepancy became a socialist duty, equal distribution was looked upon as the superiority of socialism, and "distribution based on work" was criticized as "capitalist rights." Up to now, this impartial egalitarian outlook that formed over the the last few decades has not been thoroughly changed. People's oversensitive reaction to income discrepancies is still extremely obvious. Consciously or unconsciously, the social goals of "some people getting rich first" and "getting rich together" are in opposition to each other. Once we improve intellectuals' treatment, change the reversal of mental and physical work, and open up an appropriate discrepancy between mental and physical income, it will be very hard to avoid other workers' illusions of unfairness.

In addition, the very nature of mental work increases the difficulty of solving the problem of intellectuals' pay. In reality, intellectual work is complicated, and the many multiple labor results are invisible. This is especially true in the area of soft sciences. It is not like the labor contributions of physical workers, which have material form and can be seen at a glance. Theoretically, complicated labor can be converted to multiple simple labor; however, because the labor is of different natures, actually no one can say how to convert it. Even the most modern computer technology has no way to solve it. Moreover, for a long time many people have not understood the principle that science and technology is a productive force. They believe that the higher the pay for intellectuals, the greater the burden on the state. Also because there is a "time lag" in the results of most mental work, there is a time cycle between the time that it is created and the time that it produces an effect and is recognized by society. Under the present system, with the state as the main distributor, when we want to improve intellectuals' treatment, there is no way to ascertain the degree of the raise, and yet it is somewhat easy to arouse a feeling of unfairness and dissatisfaction among other workers. This also creates greater difficulties for solving the problem of higher-education pay.

III.

For many years practice has proven that it is difficult to be thoroughly effective if one simply relies on piecemeal adjustments to solve the problem of intellectuals' pay. We must seize the opportunity of the present intensification of reform to take an overall approach in converting the pay model. In other words, we must reform the overly centralized pay administration system, the unified distribution system, and the pay raise mechanisms under administrative control; we must gradually establish a pay system that has a macroeconomic direction and that fits with the characteristics of higher education, fully utilizes competition and selection mechanisms, and that is suited to broadening the microeconomic distribution of higher education. Beginning with this target model, we must totally reform the present pay

administration system, pay system, and pay raise mechanisms before we can thoroughly solve the current problem with higher education pay.

First, in the pay administration system, we should gradually set up systems for fund responsibility, returning surpluses to oneself, and autonomy in distribution. The state ratifies and issues total annual pay in accordance with the planned scope of school operations and number of students recruited and based on an evaluation of school operations and an assessment of school results, with the school responsible for pay usage. The sources of responsibility for pay include the state-issued education funds and funds earned by the school. The state mainly controls education funds in accordance with the planned scope of school operations; it determines what share of operating funds will be used as pay and ensures that pay does not crowd out other funds. With regard to funds earned by the school, we should permit schools to withdraw a certain portion of total income and put it into total pay. With the understanding that they will not add personnel and an assurance that they will complete their planned assignment in a high quality manner, we should encourage schools to actively exploit their human resource potential, take the initiative in serving the social economy and scientific and technological development, improve school operating efficiency, and enhance self-improvement capabilities. Their responsibility regarding pay is to increase personnel with no increases in funds, reduce personnel with no reduction in funds, receive no subsidies for excessive expenditures, and retain surplus savings for use based on the total funds approved for the task. Breaking away from the traditional method of approving pay based on head count, ensures the correct relationship between labor and distribution at the macroeconomic level and creates conditions for eliminating the "one big pot" and for the school to establish mechanisms geared towards high efficiency, high reward, and self restraint. The state periodically checks and evaluates universities, and responsibility for funds fluctuates with this evaluation. Every university has authority for microeconomic decisions, such as pay distribution, and they should arrange routine distribution and pay adjustments themselves within the scope permitted by state policy. It is inadvisable for the state to adopt administrative means to directly interfere. Each university should set up special tasking registries and quality check posts, and the evaluations should reflect the principle of responsible leadership. The checks should pay attention to collecting routine data and ensure objective, accurate, and fair checks. There should be a specific system that makes the results of the check correspond with pay, to keep the check from being disjointed from pay or from arbitrarily ratifying pay. Pay is a result of the school's evaluation and is a reward or punishment for the results of an individual's work. It is not just a method by which individuals obtain economic reward. It also is a channel for obtaining administrative

encouragement. Thus, issuing workers' pay is an administrative link; it should ensure administrative jurisdiction, conform to the requirements of scientific administration, and reduce its negative factors as much as possible.

Second, as regards the higher-education pay system itself, it should be appropriate to the work characteristics of higher education and should make the pay factor capable of thoroughly corresponding to all forms of work. The main manifestations of higher education's labor characteristics are: A. Higher education has important social significance. It trains high-level talent with great social benefits, and it acts as a base for high-level science and technology. The fruits produced by scientific research can bring huge economic benefits. B. The initial labor costs, the costs during labor, and the environmental costs are all high. Work in higher education demands a rather high level of study. The state and individuals must make a considerable investment to obtain the necessary learning and grasp the rather high level of knowledge. To enable teaching and scientific research to stay ahead, the state and individuals also must constantly pay a new price. The state has a huge investment in higher education's teaching and research facilities and must make it produce results through higher-education work. C. The demands for subjective initiative are high. Work in higher education is high-intelligence, high-technology work. Both its quality and quantity are determined by the worker's subjective initiative, sense of responsibility, enterprising spirit, and dedication. As he ardently loves his work he develops the basis for creative work. D. Work in higher education is relatively measurable. Such work values as class time and scientific research funds frequently can be used as a measure of value. These characteristics are the basis of the research pay system and are the basis for designing the pay factor. The important social significance of higher-education work and its relatively high labor costs demand a rather high level of pay to make it attractive. The rather high subjective initiative of higher-education work demands that pay should be an incentive. The relative measurability of higher-education work demands that higher-education pay have an adjustable component that corresponds to the actual amount of work done. Thus the higher-education pay system can select a combined position (title) graded pay and achievement pay system. The position (title) graded pay system is a system in which pay and benefits are determined by such factors as job responsibility, job qualifications, and the degree of job complexity. In this pay system, pay is determined by the two important factors of occupation and qualifications and a corresponding pay arrangement is established. First, an occupational pay arrangement is set up, determining pay according to the position level. Second, personnel are divided into several grades according to their qualifications, and a pay grade arrangement is established. The occupational pay rewards the person for his responsibility and efficiency, and the graded pay compensates him for his qualifications. In the unified pay system, occupational pay and graded pay are used in

a parallel and overlapping fashion. The two arrangements constitute a unique system that cannot be replaced and each determines corresponding pay. The occupational graded pay is arranged by seniority and merit; under normal circumstances it tends to increase, not decrease. It gives people a feeling of stability and security as firm pay. It should be characterized by several grades with small grade differences, and with different occupations corresponding to different starting points. The higher the position, the greater the grade differential. The pay goes up yearly in accordance with the occupation, seniority, and appearance of the work. However, this pay mainly corresponds to labor potential. It only reflects potential related to the occupation and the qualifications. It does not necessarily reflect the actual results of labor, and so has a predictive distribution nature. To ensure the incentive role of pay, occupational graded pay should also be combined with achievement pay. Achievement pay is pay that is not linked to seniority or merit. It mainly corresponds to the fluidity and concentration of the work. It is aimed at being able to design an achievement pay composition with differing contents for different types of work in higher education. For example, for instructors it could be for the hours of instruction completed; for scientific research the amount of funds is the measure of work. These are base factors. We could also use evaluations of the quality of instruction and of research results for labor quality, and use such things as conducting student ideological education, teaching and research, and exploring reform or social work as a comprehensive evaluation. These two are variable factors. Occupational graded pay can be adjusted every few years and achievement pay can be adjusted yearly with achievement pay approval, combined with the annual inspection. After comparing these two parts, one can make the necessary adjustments to better reflect the actual working situation of intellectuals.

In addition, we must transform the pay-increase mechanism. Mechanisms to automatically increase higher-education pay should have a consultation system and three interconnected links. In its consultation system, pay levels should be similar to those of similar personnel working in enterprises. They should stay equal with, or slightly higher than, the latter for proper disposition of human resources. With regard to the three interconnected links, the first link is to restrain promotion to different grades in the same occupation through natural mechanisms. Provided one is able to do one's job, after a certain period one can naturally be promoted a grade. The second link is to restrain promotion to different positions through competition mechanisms. After being checked, those who qualify can be promoted in position and pay. The third link involves achievement pay. It can be promptly adjusted after various systems in the university and various individual situations have been scientifically checked. In this way, pay changes of intellectuals is connected with pay changes of enterprise personnel. They are connected with developmental changes in the person's unit, and are more directly determined by changes in the person's position, qualifications, and achievements, thereby putting pay into a process of automatic adjustment. Naturally, in

realizing this mechanism we still must demand that consideration be given to various income compensation situations. For example, when there are severe price changes, we can also implement some pay indexing, and pay compensation for extra work or special work through corresponding bonus systems and allowance systems.

Certainly, the pay model goal described above should be implemented over time. This is because, first of all, this goal increases the incentive factor and opens up pay differentials. In implementing it we must consider the effect it could produce on society and the ability of instructors and staff to bear it psychologically. We cannot implement it in a short period or in one stroke, using the form of a campaign. On the contrary, we can only advance gradually, proceeding steadily. Even though we want the wage income of intellectuals to come out of the deep valley and constantly increase, we cannot set our expectations too high. We must also keep in mind the principles of social equitability and benefits, unified planning with due consideration for all concerned, balanced comparison, and maintain social stability and unity. Second, in the transition towards the goal we also must look squarely at the current base and adopt gradual transitional methods. For example, we must first straighten out inequitable pay relations and gradually include some "gray income" within the scope of pay. Later we must use methods such as increasing seniority allowances and gradually achieving pay income differences for people with different positions, qualifications, or job service time to solve the "large plateau" problem. Finally, various types of people can use grades and grade promotion methods to be totally included in the new pay arrangement. To be safe, we can select a few test universities with sound leadership, a strong awareness of reform and innovation, a high management level, and a rather good income producing base, and then expand later. In the test unit, we can first run trials with teaching and research personnel who have clear labor characteristics and whose labor can be easily measured. Third, reforms of the pay system for higher education should be coordinated with all aspects of overall reform. The first requirement is to improve the higher-education leadership system and internal management reform, further expand school autonomy, and increase schools' administrative capabilities and administrative authority at every level. Second, we must coordinate with reform of the labor personnel system. This should include a strict set up of higher-education organizations, fixing the organization and the posts, and reducing redundant personnel. We should implement a labor contract system for all personnel, implement a teacher and staff excellence contingent, formulate testing methods for various types of personnel, and reform the current insurance and welfare systems.

It should be pointed out that, from a long-term perspective, intellectuals, as people who do complicated work, should receive high remuneration. So, with relaxed policies, income earned by the unit can only act as an auxiliary method of solving the problem of higher-education wage income; support of the state treasury is still the principle form. With the permission of the state treasury, we should increase some appropriations annually and in a planned way, with key areas governing the

treatment of intellectuals. Developing personnel resources is a base for developing the national economy. It is "fundamental capital construction." Considering the relative importance, these funds should be spent even when state financial resources are tight, for they are worth it. Presently the cry that "science and technology is the first productive force" echoes to the skies. The

whole society values science and technology, values education, and respects talent. This provides an opportunity to reform the pay distribution for higher education. This article proposed some incomplete thoughts for everyone's discussion. We hope that it will arouse a certain amount of enthusiasm for promoting these reforms.

Central-South Region

Case of Fired Worker Who Appealed Decision

93CM0075A Guangzhou GUANGZHOU RIBAO
in Chinese 12 Sep 92 pp 1,2

[Report by own correspondent Zi Xiaoxia (6088 2556 7209): "The Story of the Dismissal of a Worker by a State-Run Enterprise—Two Settlement Proposals, One Lawsuit"]

[Text] Editorial Note: This report may be of interest to some of our readers, and may also evoke argument and criticism regarding some of the issues involved. Never mind; broadening one's mind is also a good thing.

State-run enterprises emphasize their autonomy in business operations, which includes autonomy in labor and employment affairs. If enterprises do not exercise their authority or do not do a good job in coordinating it with the overall situation, their managers and administrators will frequently encounter various kinds of unpleasant consequences and importunities by others. This will, directly or indirectly, to a lesser or greater extent, dampen enthusiasm in the enterprises. The enterprises fervently wish to bring their autonomy fully into play in labor, employment, and other such areas, and to have it fit well into the overall situation; that is understandable.

Come to speak of it, it is precisely as some comrades have said, namely that in serious issues, such as how to handle the dismissal of workers, one has to be extremely cautious. On the one hand, the system must be strict, but on the other hand, one must also be apt at imparting ideological education, in order to eliminate, to the utmost of one's ability, all the negative factors and transform them into positive factors, and to truly integrate a strict managerial system with ideological-political work; the results will then be much more effective.

In August of last year, a certain knitwear factory in Guangzhou dismissed a female worker for violating discipline and thereby provoked a lawsuit. Although the lawsuit has basically been settled, the confrontation of widely diverging opinions on how it had to be settled may perhaps be worth some thoughtful observations?

1. The Causes of the Case

The worker L (her name is not being revealed), 34 years of age, began in 1979 to work for a certain knitwear factory in Guangzhou. L's influence among the staff and workers was very bad, because she frequently violated work discipline, for long periods of time she failed to fulfill her production tasks, showed little response to repeated admonitions, and even, on 25 July, falsely declared someone else's production to be her own. When her action was discovered and stopped by her team leader, L took a key and slashed the team leader on her face, around the eyes, and on her hands. The factory then decided in August of last year to punish her with dismissal from the factory.

In December of the same year, L filed a complaint with the labor dispute arbitration committee of Yuexiu district, demanding that the knitwear factory restore her to her former position and compensate her for her economic losses since August of 1991.

In March of this year, the labor dispute arbitration committee of Yuexiu district decided as follows: The defendant had been too harsh in determining the nature of the plaintiff's offences and had not observed proper procedure. According to the "Regulations Governing the Reward and Punishment of Staff and Workers in Business Enterprises," the decision of the factory with regard to L is rescinded, the plaintiff shall restore her in her former position, and all her back pay shall be paid to her. The factory may then according to law impose an appropriate administrative sanction.

The knitwear factory in the same month filed suit with the economics tribunal of Yuexiu District Court, asking the court to repeal the decision of the arbitration committee and to confirm the decision made by the factory in this case. In June, the economics tribunal of the district court persuaded the factory to withdraw its appeal, but the factory was still unwilling to abide by the decision of the arbitration committee.

2. The Relevant Issue of Autonomy

The standpoint of the factory is: The settlement of the present case is taking place in the grand climate that has throughout the country been accelerating the progress of reform and the transformation of the operational mechanism of enterprises. Was the case handled in an appropriate way? They believe their treatment of worker L was prudent and well-considered. Since 1985, worker L had never fulfilled her production tasks, she arrived late for work, and was frequently absent from her pos. She once falsified a work record card, stole products, and when the plant doctor refused to sign her sick leave card, she loudly abused him and hit him; she was a bad influence on normal production. The plant repeatedly had her undergo education, but each time, she slipped back into her old ways. In the case of this kind of a worker, the plant has the right, in accordance with autonomy bestowed by the "Enterprise Law," to take necessary action.

The standpoint of the district labor dispute arbitration committee is: Are the misdeeds of worker L really so serious as to justify her dismissal from the factory? The committee believes that her behavior was not so bad as to merit that extent. There are reasons why L could not fulfill her production tasks; she had suffered from meningitis in her childhood. In the last few years, she often had headaches, and has also had a pelvic infection. The sick leave certificate made out by an outside hospital was not approved by the factory, so the reason she could not fulfill her production tasks was that she had to work while still sick. Her theft of products 10 years ago had already been dealt with at the time. When she had hit someone, she had not caused any serious injury. The law

describes the nature of the offences, but not their degree of severity. The fact that worker L has for a long time been unable to fulfill her production tasks belongs into the sphere of the "degree of severity." Therefore, if the knitwear factory imposed on worker L the heaviest of all of China's seven types of administrative penalties, she was dealt with too harshly. Moreover, the procedure that was followed was not in accordance with the provisions of the "Regulations Governing the Reward and Punishment of Staff and Workers in Business Enterprises," which would have required that the case would be discussed and decided upon by the staff and workers representative assembly of the enterprise in question, and then reported to the local labor or personnel department for their record.

The standpoint of the Knitwear Factory is: The health of worker L is not as bad as she says; a diagnostic test showed that her headache is a nervous aching of cerebral blood vessels, and is not due to pathological changes in organs. The leave certificate by the outside hospital, which stated headaches as the reason for medical leave would therefore not always be approved by the factory clinic (the staff and workers assembly had passed the rule that sick leave certificates by outside hospitals are valid only after being approved by the factory clinic). Other chronic sicknesses, such as the pelvic infection, will also not warrant long-term rest periods. Moreover, worker L does only the very light type of work of folding cardboard boxes. L's husband is doing installations and repairs, so that the family is quite well off economically; her purpose is merely to use sickness as a pretext that would allow her to benefit from workers' health insurance. Enterprises are engaged in business operations; they emphasize labor efficiency, and if every staff or worker were to conduct himself or herself like L, how could the enterprise survive? State-run enterprises lack vitality, and a very important reason is revealed in the worker employment system. In procedural respects, the dismissal of L by our factory was discussed and passed by the shop staff and worker delegates assembly and by the staff and worker delegates assembly of the entire factory, which is in accordance with the "Regulations Governing the Reward and Punishment of Staff and Workers in Business Enterprises." Of course, that we did not report to a higher authority for their record, is a deficiency on our part.

The standpoint of the Provincial Commission for the Reform of the Economic System is: At present we are implementing provincewide the "Enterprise Law," which stipulates enterprise autonomy in the area of employment of workers. Imposing a penalty on a person like L must certainly be approved, but we must be cautious about making it a dismissal, because a dismissal will affect the family, society, and reemployment. The dissolution of a labor contract may be effected in three forms: dismissal, taking someone's name off the books,

and resignation. If the factory could settle the case against L by arranging a "resignation," it would reduce many of the obnoxious aspects of the case.

3. Controversy Over "Law"

The standpoint of the Labor Dispute Arbitration Committee of Yuexiu District was: Their (the factory's) decision was justified according to law. There are five provisions in the law about the dismissal of staff and workers: when sentenced to imprisonment; when sentenced to education through labor; when retained but still giving a bad impression during the period under observation; when guilty of a serious violation of discipline, having created serious losses, constituting a crime for which investigation into criminal responsibility is not sought; and when becoming a drug addict. Checking the transgressions of L against laws and regulations, hers were really small mistakes, which did not amount to something that deserves dismissal, and the principal action should have been to impart education. However, if the factory takes the view that the "Regulations Governing Reward and Punishment for Staff and Workers in Business Enterprises" provide seven kinds of administrative penalties for violations of discipline, one of them being for "violation of work discipline, frequent tardiness, leaving work before due time, passive and go-slow attitudes, leaving production tasks or work tasks unfulfilled," and that the said regulations allow as punishment for these violations imposition of any one of the seven administrative penalties from "warning" to "dismissal," then worker L's conduct fully justifies the imposition of the penalty of "dismissal," and the factory's action was justified in law.

The standpoint of the Provincial Commission for the Reform of the Economic System was: Before the law the positions of the enterprises and of its staff and workers are equal. Imposition of penalties by an enterprise on its staff and workers must be based on facts, must take the law as guide line, must be most carefully considered, and the nature of the offense must be accurately established. The factory in the present case should review experiences, should have a thorough grasp of the law, and should be apt at applying the law. At the same time, there is with our present laws and regulations a problem of inadequacy, unreasonable nature, and lack of clarity, so that the "Enterprise Law" itself does not contain specific rules on the punishment of staff and workers. Five different rules on the dismissal of staff and workers derive from the State Council, the Ministry of Public Security, the Ministry of Labor, and other government agencies. The seven kinds of violations of discipline in the "Regulations Governing the Reward and Punishment of Staff and Workers in Business Enterprises" allows seven grades of penalties, and these can be interpreted in a broad way. Reform and opening to the outside world urgently demand that the movement should be supplemented simultaneously and as soon as possible by the promulgation of relevant laws and regulations.

'Chinese Taipei' or 'China's Taipei'

93CM0008A Taipei TZU-LI WAN-PAO in Chinese
13 Sep 92 p 3

[Article by Lao Pao (5071 0545): "Taiwan the Tortured"]

[Text] Taiwan wants to join the GATT, but for three years it has been blocked and boycotted by the country which KMT media refer to as "China but not the CPC." This country maintains that Taiwan, under the halo of "one China," must let its suzerain join the GATT first, and then play the part of an associate member, and not itself assume the full status of member country.

In fact, Taiwan has shown great self-respect. It has not made any attempt to participate in international affairs as a full country. In applying for GATT membership, it gave its applicant's name as "Taiwan, Penghu, Kinmen, and Matsu," which is more like a "financial group or corporation" than a country. But China was still unhappy. Some progress was gradually made only after various countries made repeated efforts at pacification and tried to treat the matter simply as a case of "application for membership in a purely tariff sphere." However, China has remained unhappy. At the close of the ministerial-level conference on Asian-Pacific economic cooperation in Bangkok, Chinese foreign minister Qian Qichen maintained that in joining the GATT, Taiwan should be more appropriately identified as "Chinese Taipei." He also corrected the translation of Taiwan as "China's Taipei [Chung Hua Taipei 0022 5478 5270 0554]," because it is "Chinese Taipei [Chung Kuo Taipei 0022 0948 5270 0554]." The dialogue between Qian Qichen and reporters sounded like a debate from a course on translation, which is really incredible. Yet it is a living reality in Taiwan's entangled diplomatic struggle. China's palace culture has caused the people too much suffering, and this is just one example.

When questioned about Taiwan being elbowed out internationally by China, Qian Qichen replied with great self-assurance: "How can Taiwan's international space be narrow? It is still very broad, and it will become even broader with reunification." The remark laid bare the truth of a palace scheme. Once Taiwan is reunified by China, there will naturally be no more question on Taiwan's space of international activities. This is close to the dialectical level of the philosophy of life. If a prisoner complains about his loss of freedom, the priest will surely try to comfort him by saying that his freedom cannot be taken away in "God's kingdom." Before a convict is executed, he surely will also arrive at the detached theory that "death will give greater freedom to the soul." In other words, besides giving Taiwan a translation lesson, Qian Qichen has also assumed the role of a great master in philosophy, enlightening Taiwan and dispelling its doubts. We have really learned a great deal.

Thanks go to the KMT. Along with the extensive and profound Chinese culture, it has also shepherded us for a long time in a similar way, instilled us with all kinds of

brainwashing terms, advocated the reunification policy, and demonstrated its tough "one China" and anti-Taiwan-independence stance, and so on. All of this was aimed at leading Taiwan to pursue the "liberation of the soul." So, who, after all, confines us and deprives us of our freedom? Will the KMT and the CPC forever be our preachers? God pity the tortured.

Strait Foundation Chairman on Meeting With Mainland Counterpart

92CM0401A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 284, 22 Aug 92 pp 24-29

[Cover story report by Huang Kuang-ch'in (7806 0342 5367) on a unique interview with Ku Chen-fu (6581 2182 3940), chairman of the board of the Taiwan Strait Foundation, on his considerations over the invitation for a meeting from Wang Daohan (3076 6670 3211), director of the PRC's Taiwan Strait Association: "Ku Chen-fu Will Become the First Standing Member of the KMT Central Committee To Visit Mainland China"; date, place, not given]

[Excerpts] [Passage omitted]

Question: As you are being called an "economic ambassador," but are also actually a standing member of the KMT Central Committee, and as the PRC is in a state of being "half friend and half enemy," how will you proceed in your talks with Wang Daohan on economics and trade or Taiwan Strait affairs?

Reply: I am going as the chairman of the board of the Taiwan Strait Foundation, so I can be considered a private individual, and am not overemphasizing my status as a standing member of the Central Committee.

Question: Because the Taiwan Strait Foundation is "half official and half private," how will you deal with sensitive matters brought up by the PRC side in your talks? If the PRC side brings up matters, such as the signing of a mutual nonaggression pact, the "three exchanges" (exchange of mail, exchange of air and shipping services, and exchange through trade), or direct air and sea travel across the Taiwan Strait, how will you respond?

Reply: The Taiwan Strait Foundation is not "half official and half private," but rather can be called a private organization that is authorized to exercise public authority. So we will certainly participate in bilateral discussions about Taiwan Strait issues as a matter of course, because our only purpose in going to the meeting is to help promote Taiwan-PRC relations and Taiwan Strait progress.

How we will deal with sensitive issues brought up by the other side is a hypothetical question. In addition, we just received the letter of invitation a few days ago, so we still do not know what matters they will bring up.

Question: What were the key considerations in your final decision to go to Mainland China to meet with Wang Daohan? How close were you to deciding not to go?

Reply: First, I feel that this is a very ordinary affair. This was not their first invitation, which came in January, making this the second invitation, and a very sincere one at that. Second, as the Taiwan Strait Foundation and the Taiwan Strait Association have been sending regular faxes back and forth to each other, a meeting between their officials was bound to occur sooner or later. As long as the meeting helps to promote Taiwan Strait affairs, and is positive and serious, it will be a very natural matter.

Question: What are the major topics that you wish to either discuss or avoid at this meeting? In particular, regarding matters that the Taiwan Strait Foundation was planning to discuss with the Taiwan Strait Association in the immediate future, such as document verification, will you discuss related matters with Wang Daohao before such planned discussions take place? In addition, since the National Reunification Conference has already given its definition of "one China," will you discuss the definition of "one China" with the other side? And as to economics and trade, will you discuss matters, such as scientific exchanges, cooperative development, or joint investment?

Reply: In this meeting with Wang Daohan, we will basically discuss only Taiwan Strait affairs and economic and trade matters, and will not get into political issues or discussions about the "one-China" problem, our definition of which the other side has long known. We are still considering whether those problems really have to be discussed. In addition, while the cooperation that you mentioned is a matter for discussion, it has not yet reached "that" stage, and is still in one of removing obstacles to its discussion.

[Passage omitted]

Question: Why have we not yet reached the stage for cooperation?

Reply: How could we reach the stage for cooperation until we remove the obstacles to it?

Question: What are the current obstacles that must be removed?

Reply: For instance, we still have no investment guarantees, and there are many, many other problems, such as document verification for business dealings, which are beginning to accumulate in the area of direct service to the people.

Question: What suggestions have you received from President Li, Premier Hao, or the Mainland China Commission for this meeting with Wang Daohan?

Reply: You must ask them about that, for I cannot speak for them. It could cause misunderstandings if I passed on their suggestions with inappropriate words.

Question: Then what personal suggestions did you make in your meetings with President Li and Premier Hao? What was your approach?

Reply: I merely reported that I had received the letter from Wang Daohan, and that I welcomed his invitation.

Question: Are you planning to invite Wang Daohao to visit Taiwan? During your visit to the mainland, if the other side asks that you meet with senior leaders other than Wang Daohan, such as Deng Xiaoping or Yang Shangkun, would you meet with them?

Reply: That is another hypothetical question that I have no comment on at this stage.

Question: Shouldn't you make plans for this in case it becomes other than a hypothetical question?

Reply: You are still asking hypothetical questions, you rascal.

Question: Have you chosen a site for the talks? Have you considered holding them in Beijing?

Reply: That is still under discussion and not yet decided.

Question: Have you considered holding the talks in Beijing?

Reply: That is a possibility, but nothing has yet been decided. Once it is, everyone will be told. They will be discussing this.

Question: Who are "they?" Do you mean that you will not be taking part in the discussions over a site for the talks?

Reply: "They" refers to the friends who are helping both sides, such as my many subordinates in the Taiwan Strait Foundation, who will be involved without my direct participation.

Question: How well are you acquainted with Wang Daohan? What is your impression of him?

Reply: When Wang Daohan was the mayor of Shanghai, I met him once at an international business conference in San Francisco, where we merely exchanged greetings but did not talk. So I simply "have met him" without being very well acquainted.

[Passage omitted]

Question: As the real dealings between the Taiwan Strait Foundation and the Taiwan Strait Association are now encountering many bottlenecks, how will you go about improving this situation to break through the bottlenecks and develop Taiwan Strait affairs?

Reply: Our exchanges began with visits to relatives, and then developed into tourism, economics and trade, and culture. While I think that cultural exchanges should come first in these three types of exchange, the other side has been very cautious about them, so that they have seen the least progress. But I think that this is relative, in

that tourism has made so much progress, with millions of tourists a year, that it makes our cultural exchanges appear backward. Economic and trade exchanges have also come to naught. While we also believe that cultural exchanges should come before economics and trade, the other side feels just the opposite, so that there is a gap in our approaches. As to tourism, we all want to visit the mainland, while the other side has eased its policies because tourism increases its foreign exchange income. This makes it necessary to strive for a balance. Despite all of this coming and going of people and money, and our close family connections, our relations are still not close enough, so that a mutual improvement of atmosphere can only be seen as the right thing to do!

Question: Do you think that a "mainland fever" has really emerged in the economic and trade relations across the Taiwan Strait, or that it should be cooled down?

Reply: This is no problem. There is no need to further control the trade that is now going on so briskly. Especially since the *Regulations on Relations Between People Across the Taiwan Strait* have now been enacted, there is a legal basis for further government institutionalization. In other words, we should bring more order to our economic and trade exchanges.

Question: Has there been any opposition to your meeting with Wang Daohan?

Reply: No.

[Passage omitted]

Question: Would you like to clarify the former misunderstandings in foreign circles over the differences in your earlier and later statements, even to the point where a reporter said that you were "lying," about whether you would go to the mainland to meet with Wang Daohan?

Reply: I was not "lying." That charge grew out of a sudden question at a breakfast meeting on 8 August about whether I had seen a letter from Wang Daohan, to which I replied that I had not, but which certainly did not mean that I would not meet with him. Moreover, there were so many people at that breakfast meeting that I simply could not discuss the matter, but had no need to lie about it. Furthermore, it was only that morning after the breakfast meeting that I went to request instructions from President Li, so it was not the case that I did not wish to speak to the media.

Question: As Taiwan Strait Foundation Vice Chairman of the Board Ch'en Chang-wen [7115 7022 2429] and Deputy Secretary-General Shih Ch'i-p'ing [4258 7871 1627] have both gone to the mainland and actually had contacts and talks with senior PRC officials, do you believe that they have established an exchange pattern or accumulated a certain amount of experience?

Reply: As the Taiwan Strait Foundation has been in existence only a little over a year, and the Taiwan Strait Association just a little more than 6 months, the visits by

Ch'en Chang-wen and Shih Ch'i-p'ing naturally accumulated a certain amount of experience.

Question: Do you think that there has been any mistreatment of Taiwanese businessmen by mainland officials?

Reply: I cannot respond to questions about official business.

Question: In which case, do you think that Taiwanese investors in mainland China have run into any problems?

Reply: I have not invested there, so do not know.

Question: While you always used to maintain that we should keep some bargaining chips in our economic and trade relations across the Taiwan Strait, by not playing our trump cards too quickly, and disapproved of investing in the mainland like a swarm of bees, you have now switched from your former stand against contacts to being about to make them yourself. What were your reasons for this change? And what were your political and economic considerations?

Reply: This is not a matter of a switch, because I have never changed my views on economic and trade relations across the Taiwan Strait, and still believe that we must not invest there like a swarm of bees. This certainly does not mean that I oppose bilateral economic and trade exchanges, but rather that we absolutely must be cautious as long as we are not familiar with conditions on the other side, where much uncertainty remains. Especially in light of the many differences in our systems and laws, we must evaluate and assess before we invest, instead of acting like a swarm of bees following one another. From another perspective, I still believe that bilateral exchanges must be orderly, instead of occurring like a swarm of bees. While I have never opposed investment in the mainland, I have favored indirect investment. Especially as we have no investment guarantee agreements, it would be best for Taiwanese businessmen to set up mainland joint ventures with foreign firms, in order to have at least some safeguards. The most crucial point is that exchanges across the Taiwan Strait be integrated.

Question: What were your considerations in calling for keeping our roots in Taiwan? What actions must the government take to enable enterprises to remain rooted in Taiwan?

[Passage omitted]

Reply: Quite simply, as our land prices and wages cannot be lower than those in the mainland, the road that we must take is very clear. That is, we must undertake industrial improvement and technological upgrading. Otherwise, investing in the mainland, while continuing to use our old machinery and technology, means that we will have no industry in less than 3 years, because the mainlanders (Chinese) will very quickly master our technology. Our investments in the mainland have low wages, cheap land, and lower costs, which is why

everyone is going there. While going is no problem, the important thing is to maintain our advantage, which is technological. Since our land prices and wage costs cannot be lower than theirs, we must maintain our software advantages, such as technology and management developments. It is only a steady flow of new technologies, fresh methods, and innovative sales techniques that will keep our mainland investments forward-looking instead of in a steadily worsening condition.

As to what the government should do, I think it should assist in upgrading technology and improving the investment climate, which are more important than anything else. In other words, while everyone says that going is no problem but fears the loss of our industrial base, if in fact our domestic industrial and business world can fill up that loss with low-energy and high-tech industries, there will be absolutely no problem at all.

[Passage omitted]

Absurdity of One China Policy

*93CM0008C Taipei TZU-LI WAN-PAO in Chinese
21 Sep 92 p 2*

[Article by Liu Hsing-i (0491 0228 5030), law professor at Chung Hsing University, member of the Cheng She Society: "The Absurdity and Fraud of One China"]

[Text] Absurdity occurs most often in politics. There are several versions of the united front of "one China" alone. Chairman Huang of the Mainland Commission indicated in his report at the Mainland Work Conference on 18 September: The basic goal of the CPC's work on Taiwan is to "swallow up" Taiwan and extend communist control to the Taiwan area as soon as possible. To achieve this goal, the CPC developed a united front idea of "one country, two systems," attempting to make the transition to "territorial unification" through "unification of sovereignty" and to finally achieve "unification of systems." Its "two systems" will eventually be reduced to "one system," that is, the communist social system.

If we change the terms used in Chairman Huang's report from "Taiwan" to "China," "CPC" to "KMT," and "communism" to "Three People's Principles," we will discover that there is no difference in nature between the KMT and CPC united fronts. In order to rule China in the future, the KMT has used Taiwan as its tool for more than 40 years. It has ruled Taiwan in a colonial fashion. The most typical watchword frequently used by senior KMT officials is the "base of national recovery."

Chairman Huang of the mainland commission also pointed out: A small number of people in Taiwan, lured by promise of gain or troubled by concept, are putting personal interests above everything else. They are even willing to sacrifice the safety and wellbeing of 20 million people. What they seek is just a little personal gain and perhaps "favors" from CPC leaders. These selfish people, who talk big in public, are the "worms" in our society. What Chairman Huang said was true, but he

ignored the bigger worms, those who are engaged in the "selfless and everlasting great cause" of "reunifying China" in the name of the government and under the cloak of legality. This kind of worm is most harmful to Taiwan. Let's hope that the Mainland Commission, the Executive Yuan, and other organizations, and the Regulations Governing Relations Between the Two Sides of the Strait, the "National Reunification Program," and other rules will not become component parts of the big worms.

We know it is a criminal offense to imitate or forge others' trademarks or signatures. It is ironic that while these relatively minor offenses are punishable by law, falsely pretending to be a "country" is not a "criminal" act. Although international law has no provision for punishing "bogus countries," the international community still indicates by clear, concrete action that it does not accept the bogus "Republic of China" which claims to represent all of China. For decades, when major members of the international community established diplomatic relations with mainland China, all we could see in Taiwan's media were reports about "China" severing relations with Korea, "China" severing relations with the United States, "China" severing relations with Japan, and so on. Each time senior KMT officials would also add a few words, accusing the other side of "forsaking moral principles," for which "it should be held responsible for all consequences." Today, as information and communications are open and hard to monopolize and manipulate, we do not know how much longer this fraud can continue. If senior KMT officials really understand democracy, then the question of whether Taiwan should merge into one country with mainland China should be decided by all Taiwanese people, and not arbitrarily by a few high officials.

Editorial on KMT's Mainland Policy

*93CM0008B Taipei TZU-LI WAN-PAO in Chinese
10 Sep 92 p 3*

[Editorial: "Our Mainland Policy and Taiwan's Future"]

[Text] The success and failure of our mainland policy will have a serious impact on Taiwan's future. Its influence will be far greater than any past government policy.

Ensuring Taiwan's survival and security has become the first priority of our mainland policy. For this reason, we have always maintained that, in developing relations between the two sides of the strait, we must keep the initiative in our own hands and consolidate our position at every step. Before any kind of opening up, we not only must give serious consideration to the consequences, but also should put all kinds of possible opening measures together and use them as bargaining chips to obtain proper guarantees or CPC concessions. Otherwise, if we open the doors based on our own wishful thinking, Taiwan will face a grim future when all the chips are gone.

The results of the latest public opinion poll, as reported in newspapers yesterday (9 September), indicate that: only 17 percent of those polled know about the "1992 Mainland Work Conference" to be held from 18-19 September, and 25 percent of those polled do not know or understand the national reunification program, which is regarded as the supreme guiding principle for our mainland policy. About 30 to 40 percent answered "it's hard to say," "I don't know," or "no comment" when questioned about the CPC's attitude toward Taiwan, foreign affairs, the threat to Taiwan's security, or the stability of relations between the two sides of the strait. It is obvious that most people know little about the CPC, and it also shows that government propaganda and guidance should be strengthened. The government should find ways to provide informational materials to enable the people to correctly understand the mainland and the relations between the two sides.

More important, the poll still indicates that people have serious doubts and misgivings about relations between the two sides. For example, in the field of foreign affairs, 45.7 percent of the people regard the CPC as unfriendly toward Taiwan; only 15.6 percent regard the CPC as friendly. Moreover, 45 percent of the people agree that the government should pursue a mainland policy according to the national reunification program; only 8.8 percent disagree.

It was the government that first lifted the ban on contacts between the two sides, but it is also the government that can circumspectly "apply the brakes." For instance, the so-called indirect investments are in fact all direct investments, and the Ministry of Economic Affairs is inclined to accept the accomplished facts. Otherwise, heavy penalties would have to be imposed in accordance with regulations governing relations between the two sides of the strait. How to firmly establish policies and achieve a meeting of minds and a common understanding on the practical interests of businessmen and national security is indeed a matter of great urgency. Amid the clamoring for action to promote relations between the two sides, the calls for direct air and sea transport services, and the calls for financial exchanges, it is hoped that the authorities will handle matters in a cool-headed way, making sure that deals are more to our advantage and establishing ourselves in an unassailable position.

Government-Controlled Media Confuses Issues

93CM0008D Taipei TZU-LI WAN-PAO in Chinese
12 Sep 92 p 4

[Article by Lao Pao (5071 0545): "The Palace Black Hole Engulfs the Social Forces"]

[Text] The Tainan City Council adopted a "one China, one Taiwan" draft resolution and suggested that the country's official name be changed from the "Republic of China" to the "Republic of Taiwan." A similar draft resolution was also jointly introduced by more than half

of the members of the Kaohsiung County Assembly. Although the Kuomintang's [KMT] Kaohsiung County headquarters acted immediately to stop the move, it was unable to change the political wishes expressed by the local legislature.

However, reports on these two delicate events, which reflected the strong native feelings against the palace culture, were all swallowed up by the black hole of the major media. The media would rather give wide coverage to the KMT's abusive responses to the nomination returns, or focus on the incarcerated Weng Ta-ming [5040 1129 6900], making daily observations on his personal "mood," than pay attention to the "mood" of society at large. The way "private interest" and "public interest" are weighed and handled by the media makes people wonder.

Perhaps herein lies the basic reason why Taiwan has never been able to have an independent culture and why, in order to survive, it must depend on the Chinese court to be "cultivated and fertilized like potted plants." In the past few days, we have seen Taiwan's powerful media giving wide coverage to the French people's vote on the Maastricht Treaty. However, despite all the information "dumped" on us, does anyone know what connection the Maastricht Treaty may have with Taiwan? If the information cannot provide Taiwan with room for independent thinking, what difference is there between the information we receive and garbage? We see that every Frenchman, from the common people to aristocrats to artists, has the opportunity to exercise his direct democratic right of referendum. We can also see that after more than 40 years of struggle, we have only succeeded in having the "second" election of members to the Legislative Yuan, and that the honest call to make "Taiwan" the name of our country is still being dismissed with disdain. Is this not absurd?

The members of the Legislative Yuan, who are accused as chief plotters in the 18th influence-peddling bid scandal, not only remain free from punishment, but have become popular news figures in political circles. Can this society feel no pain at all? Can the media serve only as their influence-producing machines?

The "parliamentary observation fund," which was established with great fanfare, has also cleverly invited the legislators suspected of involvement in the scandal to "celebrity discussion meetings" and public hearings on the issues of influence-peddling and the draft lobby law, as if the corruption scandal is merely a debate on "whether abortion should be legalized." What sort of morally degenerate society and confusion of right and wrong do we have?

Li Teng-hui frankly admitted in the south that the Finance Ministry's so-called "second land reform" is not a "land reform," but merely a "matter of the tax system." This news was almost totally blacked out, and Wang Chien-hsuan [3769 1696 3551] continues to enjoy great popularity for upholding justice in the "land

reform." At the same time, the "land planning" presented by the Taiwan Professors' Association, an elaborate academic study by scholars that really gets to the heart of the "land reform" question, also disappeared into the media's black hole. Evidently under the remaining evil forces in the black hole of the palace, it is difficult for Taiwan to bring its national and social vitality into play. It seems that we can only wait quietly to be incorporated by a great China after our society has become hollow.

Political Roots Of Money Politics

93CM0016B Taipei TZU-LI WAN-PAO in Chinese
24 Sep 92 p 14

[Article by Liu Tahuo (0491 1129 0735): "Political Roots of Money Politics"]

[Text] The crisis created by money politics lies not in public ignorance of this phenomenon but in public attitudes toward it.

One reaction to the corruption, lobbying, and vote-buying cases is that these are the doings of a handful of dishonest businessmen, legislators, and officials: they are isolated cases. All that needs to be done is for the government to investigate the units and boldly and resolutely bring the law-breakers to justice. The reason we have money politics these days is solely because a timid government always glosses over things to avoid trouble. Although this attitude is far removed from reality, it is held by many people. It makes it all but certain that money politics is here to stay and will get worse.

The second attitude is that corruption and lobbying are normal human behavior; human beings naturally have selfish desires. Thus, money politics is a normal thing, nothing to get too excited about. This attitude ignores the fact that money politics varies in magnitude from one country to the next, and that nations also differ in their ability to crack down on scandals related to money politics. This attitude weakens society's ability to take action against an unjust external environment, and it misleads the public, diverting them from understanding and reflection, practice, and reform.

It follows that the best reaction to money politics is to clearly identify its sources in Taiwan today.

Elections in recent years share a distinct characteristic, namely that the KMT always nominates many fat cats and that these fat cats invariably use vote-buying instead of a political platform to gain the upper hand over the Democratic Progressive Party. They have won time and again. The question is: what kind of political system is this? What kind of political structure is this?

Assuming that we do not suspend our critical faculties, these fat cats, once elected, will not project a positive public image. Why then does the KMT nominate them? It does so to consolidate its political power. Over the past

few years, what concerns the KMT most is courting the fat cats in its circles as political allies. Let them buy their way into the legislature. How else can the KMT keep opposition parties in their place? Since the KMT lets these people practice vote buying, it has no choice but to condone it after they are elected. Under these conditions, how can inspection and procuratorial units enforce the law impartially? How can high-ranking officials become the saviors of the people? The investigation of a handful of corruption cases by the inspection units and judicial organs is inwardly a factional struggle and outwardly an example of the crackdown on money politics. However it does not make a dent in the institution of money politics itself.

Here we must point out something that we have come to take for granted over time: since money politics involves improperly using one's privilege to profit oneself, it could not have flourished without the "cooperation" of administrative organs and the connivance of investigative and judicial units. Our administrative machinery, particularly many key positions, has not been politically neutralized thus far. This is the institutional reason behind why money politics has deteriorated in Taiwan. To be sure, our legislation to prevent lobbying and introduce "sunshine" or open politics is far from perfect. But, after a case comes to light, the media's tendency to blame the problem on inadequacies in the "sunshine" legislation is a mere attempt to shift the focus of attention. It is not that there is no law to regulate things, but rather that nobody is enforcing it.

To sum up, the root cause of money politics these days is still the KMT's strategy to consolidate its regime. Taiwan lacks a politically neutral bureaucracy. To end the above situation, the most important thing is for the people to understand money politics clearly and adopt a correct attitude toward it. What is needed is a conscious joint effort on the part of the people to change this political mechanism through political pressure. From the perspective of political dynamics, the process of two-party checks and balances, which would involve creating a strong opposition party, remains a feasible approach in the present stage.

The KMT may have scaled back outright oppression and exploitation, but money politics resembles a chronic disease eating away at one's inside. On the surface things look fine, but a more subtle kind of exploitation is at work, in ways that you can hardly notice. We should no longer have an "out of sight, out of mind" mentality. Once the KMT succeeds in putting together a governing alliance through elections and the six-year national construction plan, a new authoritarian political system will take shape. When that comes to pass, movements of a progressive nature will be immobilized. Or the KMT may go in for some window-dressing, without really changing the structure. A new round of wealth redistribution in which the political process is used to deprive tax-payers of their hard-earned money will be imminent, which was what happened in the case of bid number 18.

Taiwan's future, as well as personal morality, is at stake in our opposition to vote-buying in the elections scheduled for the end of the year. Let us rise and oppose vote-buying!

Martial-Law Mentality Seen Still Influential in KMT
92CM0402A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 283, 15 Aug 92 pp 36-37

[Article by Chi Yen-ling (4764 1693 7117): "The Kuomintang Still Cannot Kick the Habit—Its Addiction to Martial Law"]

[Excerpts] [passage omitted] Taiwan has been under martial law for 40 years. The power of martial law is like that of morphine and heroin, and the ruling Kuomintang has been addicted to its use for 40 years. The "poison of martial law" has long penetrated into the party's bone marrow. Now the martial law is lifted, and the state of mobilization for suppression of the rebellion is also declared ended, which is like denying the Kuomintang the use of drugs and forcing it to kick the drug habit. But, like any former drug addict has found out, life without drugs is worse than death. Sooner or later he will start using drugs again because he cannot resist the temptation, and he will be off and back on drugs in an unending cycle.

The first habit the Kuomintang acquired under martial law and still cannot overcome is the habit of making no distinction between party and state or between party and government. Ch'en Shui-p'ien [7115 3055 2078], member of the Legislative Yuan, recently made public two well-documented cases, showing that the Kuomintang has indeed resumed its old habits.

The first case: The present site of the Kuomintang headquarters was rented from the State Property Bureau. After using the land on a rent-free lease for more than 30 years, the Kuomintang had the lease extended at a super low rent for 7 more years, and some 2 years ago, the Kuomintang bought the land at a unit price of 200,000 yuan per p'ing [an area of 6 feet square]. However, the market price at the time of the purchase was about 400,000-500,000 yuan.

The second case: Vice Finance Minister Li Chung-ying [2621 0112 5391] wrote an official letter to the responsible person of the privately owned International Finance and Securities Co, asking the company to make a donation to the Kuomintang's party development fund. The official letter was discussed as a "secret document" at a board meeting of the company, and the board decided to donate 1 million yuan to the Kuomintang.

Citing the first case, Ch'en Shui-p'ien accused the Kuomintang of "illegal occupation of public land," but the Kuomintang headquarters argued that "the lease and purchase were handled completely according to law." The State Property Bureau also stated that "the purchase was completely legal," that "the price, 250,000 yuan per

p'ing, was based on the publicly announced land value for that area of that year," and that "there was absolutely no special deal to sell the land to the Kuomintang at a low price."

The land occupied by the Kuomintang headquarters is the one and only "precious site" in Taiwan that stands directly facing the Presidential Office. The price of this "precious site" was never as low as 100,000-200,000 yuan per p'ing, not even in times of sluggish real estate demands, certainly not 2 years ago when real estate prices were skyrocketing. At that time, 200,000 yuan was hardly enough to buy 1 p'ing of land in Taipei suburbs such as Neihu and Nankang. No one knows how many people in Taiwan are saving money to buy houses, and the people are very well informed about land prices. If the land right in front of the presidential building was worth only 200,000 per p'ing, the properties near the Kuomintang headquarters would have caused a mob scene of land grabbing. Although the State Property Bureau cited laws and used a lot of figures to show the legality of the deal, this number trick may fool the foreigners, but not the people of Taiwan, who are trying to buy real properties like crazy. If selling the land at 200,000 yuan per p'ing is not special treatment, what is?

Citing the second case, Ch'en Shui-p'ien accused Li Chung-ying of using his power as a high-ranking state official to commit "extortion," for which the Executive Yuan should have him dismissed and punished by law. But Li Chung-ying argued that "he wrote a personal letter only because he was asked to do so by the board chairman of the International Finance and Securities Company to help collect donations from party members," and that "everything was done on a personal basis and had nothing to do with his position as vice finance minister."

Ch'en Shui-p'ien may have exaggerated a little by accusing Li Chung-ying of extortion, but it is certainly not an exaggeration to say that Li has failed to separate the party from the government. It is nothing unusual for political parties to raise funds in democratic countries. But the Kuomintang has gone too far. It is rather cruel of the senior Kuomintang officials at the central level, who are paid well over 100,000 yuan a month, to arbitrarily request the grassroots party workers, who live on a meager monthly salary of 20,000-30,000 yuan, to donate a month's salary to the party. Already in a slump, privately-owned enterprises are also being solicited for donations, which are putting them in a dilemma. They fear that if they don't make a donation, they will incur the Kuomintang's wrath and suffer the consequences in the future. If they do, it will look like paying "protection money," which they don't want.

The worst part is that Kuomintang party and government leaders at all levels no longer care what people may think about their solicitation for money without separating the party from the government. "Fund-raising is no crime, and donations are justified." As long as there

is money to make, why bother about separating the party from the government? Li Chung-ying argued that he acted on a personal basis, but in the eyes of the contributors, he was "Vice Finance Minister Li" and not "private citizen Li." Who would pay any attention to the latter? So many people have used the same excuse to commit crimes, particularly high-ranking Kuomintang officials. Each time they said or did something wrong, they would argue that they did it on a personal basis. This has happened so many times that people have lost count of them.

The second habit the Kuomintang acquired under martial law and still cannot overcome is the habit of putting a label on people and making free speech a crime. The Executive Yuan's Mainland Commission recently adopted rules for the implementation of regulations governing relations between the two sides of the Taiwan Strait, which stipulate that from now on people who have spoken improperly in favor of the CPC while visiting the mainland will be subject to disciplinary sanction. This is another symptom of the Kuomintang's lingering addiction to martial law.

The General Garrison Command, the arch perpetrator of martial law, was disbanded at the end of July, but, like a monstrosity that has been put out of existence, the General Garrison Command is not dead, just divided and continuing to breed. The surviving cells of the General Garrison Command have gone into the bodies of the Ministry of Justice, the Government Information Office, the Mainland Commission, and other organizations to continue to breed and grow. The Mainland Commission's decision on "improper speech" is just one of the indications of the resurgence of the spirit of the General Garrison Command.

Since the opening of the two sides of the Taiwan Strait to each other, several million people in Taiwan have traveled to the mainland. Some of them have sung the praises of the "respected and beloved Premier Li"; some hail the "tremendous development of the motherland"; some think that "Teng Hsiao-p'ing is really determined to carry out the reforms"; some attend the "puppet" national day celebrations on 1 October each year; some have gone to the mainland to build railroads, factories, and schools for the CPC; some exclaim that "the mainland will overtake Taiwan economically in a few years"; and, of course, there are also "traitors" who shout "long live the motherland" and curse the "incompetent Kuomintang."

According to the rules for the implementation of regulations governing relations between the two sides of the strait, adopted by the Mainland Commission, all these

people have made "improper speeches," participated in CPC political activities, and thus contributed to the CPC's united front. If the Kuomintang really choose to act in such a reckless and arbitrary manner, several million people in Taiwan could be incriminated, and future travelers to the mainland had better keep their mouths shut and act cautiously, or face dire consequences as they would during the period of martial law. [passage omitted]

There are now only three names left on the black list, and the crime of speech has also been removed from Article 100 of the Criminal Law. Suddenly the Kuomintang has lost the power to control the people's thinking and keep their mouths shut. Like denying drugs to a drug addict, this loss of power is causing great pain and confusion to the Kuomintang. The Kuomintang will always try in every possible way to make up for the loss, and the rules for the implementation of regulations governing relations between the two sides of the strait is a substitute drug it has found.

The third habit the Kuomintang acquired under martial law and still cannot overcome is the idolization of great men. Wang Chia-hua [3769 1367 7520], president of the Taiwan Television Corporation, recently forbade the airing of the "Mei Ling Palace," a show under the "8,000 Li" program. His reason: "Madame Chiang Kai-shek is still living and in good health. The show could be misleading to people who do not know the facts."

Wang Chia-hua once worked as office manager for Chiang Ching-kuo, and naturally he has deep feelings for the Chiang family. Two years ago, he forbade the airing of a documentary entitled "Chiang Ching-kuo in the Soviet Union," which was produced by a nongovernmental film-maker. The reason was that the film included a sequence on Chiang Ching-kuo joining the CPSU, and that the image of the "great man" could be hurt by the fact that he was once a CPSU member. This was Wang Chia-hua's painstaking effort to protect the image of his late master. However, such painstaking effort often turns into overcautiousness. The documentary rejected by the Taiwan Television Corporation was taken over and broadcast by the China Television Corporation. It caused no problem, and it was also reported that even Li Teng-hui had obtained a video copy of the film so that he could see it at home.

The "Mei Ling Palace" was examined and approved by the Government Information Office. Obviously it would not denigrate the image of the "great man's wife." Unexpectedly Wang Chia-hua used a yardstick even stricter than that of the Government Information Office. Such cultural suicide is rather baffling. [passage omitted]

Governor Patten's Reform Plan Criticized

HK2511090092 Hong Kong LIAOWANG OVERSEAS
EDITION in Chinese No 47, 23 Nov 92 pp 6-9

[Article by staff reporter: "Scholars in Beijing Comment on Chris Patten's 'Constitutional Package'"]

[Text] Editor's note: In his first policy address, Hong Kong Governor Mr. Chris Patten has unilaterally introduced a series of important changes without consulting the Chinese side. In doing so he has violated the Sino-British Joint Declaration, the Basic Law for Hong Kong, as well as the related understandings between the Chinese and British sides. Obviously, he aimed at starting public polemics. His violation of international morality and justice [guo ji dao yi 0948 7139 6670 5030] and his stubbornness in having his own way have been condemned by figures in Hong Kong and Mainland China as well as in international public opinion, and some scholars studying the Hong Kong issue in Beijing have also aired their own views. Here, we excerpted the comments of several scholars, including Song Changyong [1345 2490 3057], Wang Qiaolong [3769 1564 7893], Cheng Wei [4141 0251], Liu Wei [0491 5633], and Huang Wentao [7806 2429 3447] for our readers' reference. [end editor's note]

One of the major contents of Chris Patten's government reform is to change the executive-led into a legislative-led structure, elevate the status of the Legislative Council [Legco] by supporting it and expanding its authority as a means of contending with the Chinese side.

[Song Changyong] A main point of Chris Patten's constitutional package is to change the executive-led structure into a legislative-led structure, and to use Legco as a means of checks and balances against the Chinese side by supporting it, upgrading it, and expanding its limits of authority.

For a long time, Hong Kong has practiced an executive-led system. The operational mode for this system is that the Executive Council [Exco] makes decisions which are to be ratified by Legco afterwards. Legco's role, to a certain extent, is as an adviser and as a means of checks and balance; it used to be mainly composed of appointed members, with some concurrently holding the post of Exco member in the interests of mutual communication between Legco and Exco. In terms of actual operational efficiency, this system suits the needs of Hong Kong well as a urban regional economy based on free competition. The Sino-British Joint Declaration has expressly provided that Hong Kong's current system will be kept unchanged, whereas the core of Chris Patten's constitutional package is to abruptly change the executive-led structure into a legislative-led one, which will be detrimental to the smooth transfer of government and the steady transition of the political structure of Hong Kong.

First of all, this constitutional package contravenes the Sino-British Joint Declaration. In 1997, Britain will return sovereignty over Hong Kong to the Chinese

Government rather than to Hong Kong's Legco. An implied concept embodied in the Joint Declaration stating that Hong Kong's current structure will remain unchanged is that the executive-led political structure will be kept unchanged.

Second, it contravenes the Basic Law of Hong Kong. Some stipulations in the Basic Law on the future political structure for Hong Kong were borrowed from the executive-led structure that has been efficiently operating in Hong Kong for a long period in the past. Chris Patten's constitutional reform, which deviates from the Basic Law, can hardly ensure convergence between the political structures before and after 1997, thus it will have destructive impact on the smooth transfer of government and a steady transition in Hong Kong.

Third, a legislative-led political structure does not suit the specific circumstances of Hong Kong as an urban economy enjoying a high degree of autonomy, and is unfavorable to efforts to enhance administrative efficiency and to retain the continuity of Hong Kong's political and economic systems.

Chris Patten is attempting to transform functional constituency elections into a kind of direct election in disguised form. This change, together with the already stipulated direct Legco elections, will give rise to a situation in which Hong Kong's Legco elections will be basically monopolized by direct election. On the surface this seems to be an enhancement of democracy, but in fact this is an attempt to foster and prop up Britain's followers under the camouflage of "democracy" so that they can resist the Chinese Government after 1997. This is a tactic used consistently by colonialists.

[Wang Qiaolong] There is another major change introduced by Patten's "constitutional package," which actually changes functional constituencies into direct elections in a disguised form. First, this violates the original meaning of election by functional constituency established by the Hong Kong Government. While maintaining the appearance of functional constituencies, the real contents have changed. Functional constituencies were introduced by the Hong Kong Government's first green paper on representative government in 1984, which was endorsed by a white paper a year later and was applied in the Legco elections that same year. The purpose was to draw economic and special professionals from society, though they were not elected through universal suffrage. For this reason, election by functional constituency ensures that figures from economic and social sectors can take part in elections and will have representatives elected to the Legco who will reflect the opinions and demands of professionals, social groups, and organizations that have contributed to and which have had great influence on Hong Kong's social and economic development. Therefore, the functional sector should have an important position in society. However, according to Patten's "constitutional package," the current voting method for the 21 functional constituencies is to be changed from voting by corporate bodies in the

past to voting by individuals. Moreover, nine new functional groups are to be introduced, allowing the entire working population of Hong Kong to have the right to vote and this will sharply increase the number of qualified voters in the original functional constituencies from 110,000 to 2.7 million. As a result, the contents and significance of the original elections by functional constituency would be meaningless. Actually, this is tantamount to a disguised form of direct elections in which "every person has a vote."

Second, it contravenes the provisions and spirit of the Basic Law as well as the commitments made by the British Government and the Hong Kong British Government on Hong Kong's political development. We all know that the principle followed by the Basic Law while designing Hong Kong's future political system was to proceed from the actual reality and legal status of Hong Kong rather than copying the mainland's models or foreign countries. It should be conducive to Hong Kong's stability and prosperity, promote capitalist economic development, take into account the interests of all social strata, and be accepted by the majority of the people. It should also preserve the effective part of the existing Hong Kong political system and gradually develop a democratic system suited to Hong Kong's reality in a step by step and orderly manner. Britain and the Hong Kong British Government also reiterated time and again in 1988 that the development of Hong Kong's political system should be prudent and proceed in an orderly way so as to facilitate a smooth transition in 1997 and maintain a high degree of continuity, and pointed out that "there is no reason to effect rapid changes in succession for the sake of change." Thus it can be seen that Patten's "constitutional package" has thoroughly contravened the above-mentioned principle and spirit of the Basic Law as well as commitment by the British Government and the British Hong Kong Government on developing Hong Kong's political system in an orderly and step-by-step manner.

Third, it has also contravened the provisions of the Sino-British Joint Declaration on keeping Hong Kong's social and economic systems unchanged. To guarantee a smooth transition in 1997, Hong Kong's political system should remain unchanged as much as possible. If a change necessary, there should only be small changes rather than big ones. Otherwise, it will directly affect the smooth transition of government.

To sum up, Hong Kong's Legco will be monopolized by direct elections after election by functional constituency is covertly changed to direct elections in addition to the originally prescribed direct Legco elections. Superficially, this looks like a development of democracy. Actually, it backs followers of Britain under the banner of "democracy" so that they can continue their line of confrontation against the Chinese Government after 1997. This is the usual practice of colonialists.

Patten's policy address ignored the understandings reached between China and Britain regarding the arrangements for the 1995 elections. The fact that he came up with another package only shows that in order to achieve his ulterior objectives, he can ignore the commitments the British have made, ignore international morality, discard due cooperation, and head toward open confrontation.

[Sheng Wei] The method of composition for the Election Committee is a very crucial part of Patten's "constitutional package." He holds that the Basic Law does not lay down "any guidelines for the 1995 Election Committee" and that he therefore "had to make proposals himself." This is an attempt to find loopholes in the Basic Law. In fact, the Chinese and British sides have already held negotiations regarding the composition of the Election Committee. The Chinese side clearly agreed to the five principles put forward by the British side, but also pointed out that the components and proportion of the Election Committee can only be determined in accordance with the provisions in Annex One of the Basic Law. The British side has confirmed this through the letters of its foreign secretary and also stated that "detailed arrangements for the establishment of the Election Committee will be discussed by both sides at an appropriate time." In view of this, the British side agreed to forming the 1995 Election Committee in accordance with the provisions in article two of Annex One of the Basic Law. Since both the Chinese and British sides already reached an understanding and consensus, the composition of the first Election Committee is not specified in the Basic Law.

Now Chris Patten has said that the correspondences between the Chinese and British sides do not have the binding force of the nature of an agreement. This is an untenable argument. As far as theories of international law are concerned, international law has two major sources. The first is international treaties and the second is international practice. When a foreign minister, as the representative of the government of a country, sends a letter to the foreign minister of another country stating that he has reached consensus on a particular question, that statement possesses the nature of agreement and is binding. Anyone who does not act according to this is perfidious. That Chris Patten ignored the understandings reached between China and Britain in his policy address by putting forward another package only shows that, in order to achieve his ulterior objectives, he can ignore the commitments the British have made, ignore international morality, discard due cooperation, and head for open confrontation.

That he runs counter to the Basic Law and the Sino-British Joint Declaration is more evident. If Hong Kong's last Legco produced in 1995 is to continue beyond 1997, the British should follow the understandings reached by both sides on the composition of the Election Committee and make arrangements in accordance with the principles confirmed by the Basic Law

and the provisions in Annex One. And the details can be discussed by the Chinese and British sides at an appropriate time.

According to Chris Patten's "constitutional" package, a series of important changes will take place in Hong Kong's political system within five years. This will definitely cause shocks to society. Moreover, he unilaterally puts it forward and started an open debate. Does this show that he represents public opinion? Playing public opinion cards and creating an image of showing concern for the people is always the practice of politicians.

[Liu Wei] Patten has kept on saying that he represents public opinion, then, let us see what the loftiest aspirations of the Hong Kong people are. They are cooperation between China and Britain, the social stability and economic prosperity and development of Hong Kong, and a smooth transition and handover of power in 1997. But, according to Patten's "constitutional package," a series of drastic changes regarding the political system will take place in less than five years, which will inevitably cause social repercussions. What is more, he did not discuss with the Chinese side in advance and put forth the package lopsidedly, thus stirring up an open controversy. What public opinion does he represent when viewed from all this? As a matter of fact, people can see Patten's motives very clearly from what he has done—buying his reputation and fishing for honors to serve his personal interests and raise his personal political influence in an attempt to pave the way for his return to British political circles. With regard to public opinion, it is nothing but the bargaining chip of this political gamble. Just as Adley, chairman of the all-party Sino-British Parliamentary Committee, has criticized: Patten's reforms do not reflect the aspirations of the great majority of silent Hong Kong people, and the image of a close relationship with people here, which he has portrayed, is merely the consistent style of a politician.

Shortly after Patten's policy address was made, it was opposed by figures from Hong Kong industrial and commercial sectors. On 9 November, the Business and Professionals Federation of Hong Kong published a statement expressing its stand on Hong Kong Governor Patten's package of political reform. In the statement, it expresses that a smooth transition in 1997 and convergence with the Basic Law conform most to the interests of the Hong Kong people, and that the absence of this would cause serious consequences to the entire society and economy.

It is believed that the "Sino-British Joint Declaration" reflects the Hong Kong people's aspirations, and the Basic Law embodies and takes account of the interests of various strata in Hong Kong. The repeated negotiations by the Chinese Government with Britain on the issue of the handover in 1997 are aimed at providing guarantees for Hong Kong's stable transition and a smooth transfer of power so that the existing economic and social lives of the Hong Kong people will not be affected.

In short, safeguarding Hong Kong's Basic Law, developing a political system in line with the agreements reached between China and Britain, and converging the political system with the Basic Law are the public will of the Hong Kong people, who hope for stability and Sino-British cooperation rather than dramatic changes and confrontation.

The essence of the conflict and nucleus of the issues between China and Britain lie in: 1) whether or not political development in Hong Kong will converge with the Basic Law; and 2) whether or not China and Britain will continue their cooperation on the basis of the Joint Declaration. On these two issues Patten has embarked on a line of derailment and chosen the way of confrontation. The ferocious consequences they will bring about will seriously damage the stability and prosperity of Hong Kong and directly infringe upon the interests of Hong Kong people.

[Huang Wentao] The essence of the conflict and the nucleus of the issues between China and Britain is very clear now. One is whether Hong Kong's political development will converge with the Basic Law, and the other is whether China and Britain will continue to cooperate on the basis of the Joint Declaration. The current situation is that Patten has embarked on the line of derailment and chosen the road of confrontation with regard to these two major issues. The fierce consequences will seriously damage the stability and prosperity of Hong Kong and directly infringe upon the interests of the Hong Kong people.

In my opinion, the current dispute instigated by Chris Patten has endangered the integrity of the political protection mechanism for returning Hong Kong's sovereignty to China and carrying out a steady transition. This mechanism, established by China and Britain, comprises the following three aspects:

1. A common policy between China and Britain: China and Britain signed the Joint Declaration. This is the basis for the two countries' cooperation on the Hong Kong issue.
2. Chinese state law: The Chinese Government has formulated the Basic Law of the Hong Kong Special Administrative Region. This is the main mechanism ensuring the return of Hong Kong's sovereignty, a steady transition, a smooth handover, and Hong Kong's prosperity and stability.
3. The diplomatic operations of China and Britain: To solve various problems involving the transition to 1997 and a smooth handover, China and Britain formed the Sino-British Joint Liaison Group and the Sino-British Land Committee and have conducted multitier, multi-channel, regular and irregular diplomatic meetings for communications, consultations, and exchanges.

In the past few years, there have been setbacks and ups and downs in the course of Hong Kong's change and transition, but on the whole, Hong Kong's economy has

been prosperous, its society has been stable, popular feelings have been tranquil, and steady progress was made in the actual political process of returning Hong Kong's sovereignty. Facts show that the political protection mechanism established by China and Britain was perfect and complete, and work and cooperation concerning this structure and mechanism were fruitful and helped prevent possible turmoil and unrest at a time when Hong Kong was experiencing tremendous historical change, thus enjoying the widespread support and confirmation of the Hong Kong people.

But now Chris Patten has flagrantly and openly challenged this protection mechanism. A public opinion poll has indicated that the Hong Kong people's direct response to the dispute he had instigated is "worry."

I would like to point out that Chris Patten's "constitutional package" has injected a factor for structural disaster in Hong Kong's political and social structures. In other words, he has comprehensively and thoroughly established a full set of legislative-led political structures, thus tremendously affecting the long-standing and effective executive-led structure. This will inevitably cause unpredictable paralyzing contradictions in Hong Kong's political and socioeconomic structures. The direct effects arising from this include: the morale of executive departmental chiefs and civil servants being affected; a loss of their reputation; a highly efficient, authoritative, and executive-led government control structure gradually disintegrating and collapsing; a small number of interest groups could form new monopoly forces in legislative departments, practice political division, defend those who belong to their faction and attack those who do not; disputes will arise between different departments under the political structure and their contradictions will worsen; socioeconomic development will become confused under a disorderly and incompetent political system and the investment environment will deteriorate; and there will be no more harmony in society and the instability of the social structure will manifest itself in many forms.

It is obvious to all whether this political system which is full of conflicts, contradictions, and disputes is good or bad.

Historically, Britain practiced self-designed "constitutional development procedures" before withdrawing from its colonies, thus leaving endless troubles there. Some Asian and African countries, which were formerly British colonies, were reduced to serious internal conflict and confusion after the British withdrew from those countries. Some of them have so far been unable to get rid of poverty, backwardness, and internal disorder. The root cause lies, to a large extent, in Britain's "noncolonialization" arrangements, which have caused structural confusion to these countries.

Chris Patten's so-called "constitutional package" has caused confrontation and division in Hong Kong society. This is only the beginning but it has caused deep worries among the people.

Patten's Reforms Seen Aiming To Replicate British-Style Political System

92CM0419A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 272, 1 Sep 92 pp 44-46

[Article by He Li (0149 4539): "New Governor's Bold Move To Perpetuate British-Style Political System"]

[Excerpts] Chris Patten, Hong Kong's new governor, has given notice that he intends to be an active governor. His first bold move after assuming office is to reform the political system. Now Hong Kong's political system, a bone of contention between Britain and China, is a highly sensitive issue. What grand design Patten has up his sleeves will not be formally disclosed until the release of his first government report on 7 October. But already the political circles are agog with nervous excitement over possible changes in the local political system. Needless to say, the most nervous are the Chinese, Britain's opponent.

[Passage omitted]

Actually it is easy to see why the Chinese are nervous. China has never dealt with Chris Patten before and does not really know what he is up to for the moment. All they know is that he could be dangerous, what with him talking about being "polite but firm" even before he took up his post.

Already the Chinese have been bearing down hard on the British on two fronts even before Patten assumed office. First, they have been criticizing the British government in Hong Kong for spending too much on the project to build a new airport. Second, it has been warning Britain about making any misstep on the issue of Hong Kong's political system. By taking the offensive, China also wants to deal the new governor a head-on blow.

As far as the political system is concerned, the Chinese warning is this: 1) Don't dream of speeding up democratization in Hong Kong. The number of directly elected seats on the Legislative Council [Legco] must not exceed 20 by 1995. The reason is that the maximum number of directly elected Legco seats allowed under the Basic Law is 20 by 1997. And you cannot change the Basic Law. 2) Do not appoint members of United Democrats Hong Kong [UDHK], a democratic political organization, to the Executive Council [Exco], the center of government decision-making in Hong Kong. UDHK members are opposed to the Basic Law and are resisting the Chinese Communists, so the UDHK is a thorn in the Chinese side. Moreover, the Chinese have made it clear many times that if Legco members are to survive 1997, that is, continue as members of the post-1997 legislative body, or what they call riding a through train, they must meet certain conditions (stipulated in the appropriate state rules and regulations as well as the Basic Law. They must support the Basic Law, be willing to pledge their loyalty to the Special Administrative Region [SAR], and must be affirmed by the SAR's preparatory committee, etc.) In other words, not everybody can ride the through train.

Those who fail to get clearance may be thrown off the train. (And the Chinese are making it clearer and clearer as to who will be thrown off the train.)

In the scheme drawn up by the Chinese, it seems that room for maneuver is getting smaller and smaller. Any move that is just a tad too radical will overstep the limits set by the Chinese plan. Last year 18 seats on the Legco were made directly electable, close to the maximum for 1995. As for what people to put on the Exco, the British could still claim that it falls within the governor's prerogative and is not something on which the Chinese need to be consulted. In reality, though, the choices open to the governor are very limited. So everybody is waiting to see whether the British would play hardball with Beijing.

[Passage omitted]

Chris Patten arrived in Hong Kong in July to assume his position, bringing with him five administrative programs, only one of which concerned the political system, specifically. It would retain the essentially administrative style of government.

Earlier he had talked about personally answering questions from Legco members in the same way that the prime minister in Britain and his cabinet members answer queries from members of parliament. No sooner had he taken office than reports were heard of yet more of his ideas on political structural reform.

Apparently the political structural reform Patten envisions is not mainly concerned with the one issue that the Chinese are so sensitive about, namely the number of directly elected Legco seats. Instead, it focuses on reshaping the relations between the executive branch of government and the legislature and making the former responsible to the latter. As the center of government decision-making in Hong Kong, therefore, the Exco will bear the brunt of the burden in any reorganization. A series of events have taken place.

The first event to be confirmed is that Exco members voluntarily offered to step down ahead of time to give Patten a free hand in filling the council with his own appointees. At the time it was thought by some that the early resignation offer was a ploy by sitting Exco members anxious to know their own political future to force the new governor to take a position as soon as possible. The Exco is equivalent to a government cabinet, others argued, so it is only normal for a new governor to want to fill his cabinet with his own appointees.

Then came reports that Patten was thinking of reorganizing the Exco. Under one of the plans being considered, the Legco and Exco would be separated with an end to overlapping membership. This plan was widely discussed at the time. [Passage omitted]

Next we heard that Patten was considering resigning from the presidency of the Legco so that he can attend its

sessions as head of the administration and answer questions about government administration from Legco members.

These two changes, namely the separation of Legco and Exco and the submission of the head of the executive to questions from Legco members, reportedly are necessary to establish a system under which the administration is more directly held accountable to the legislature.

During an interview with reporters from DONGFANG RIBAO on 18 August, the governor talked about the objectives of political structural reform. As reported in the newspaper, what Patten is doing is testing a political system for the future SAR after 1997. He promised that his administrative report to be released on 7 October will "clearly discuss the future direction of political reform in Hong Kong and will cover such areas as the composition of the Exco and Legco and relations between the two so that they can be implemented in stages in the next several years... The goal is to perpetuate such reform smoothly beyond 1997."

During the interview, Patten described as purely "speculative" reports that Legco and Exco are to be separated and said that a final decision will be made only after considering the Exco's future role and functions. Within the political circles, however, it was portrayed as a finalized plan, a done deal.

[Passage omitted]

Regarding the separation of the Legco and Exco, the argument goes like this. The two councils are different in nature and perform different functions; the Legco criticizes and makes proposals on policies while Exco is responsible for policy formulation, so the two should be completely separated from each other. And if the two councils are separated, there should be no dual membership; nobody should sit on both councils.

All Exco members are appointed by the governor, including some who are Legco members. The purpose of overlapping membership is that these members can serve as a bridge between the two councils. Indeed members of the two councils used to hold joint consultations and have a combined office.

Currently Legco members can be divided into three groups depending on their method of election or appointment: 1) direct election; 2) election by functional groups; 3) appointment. The two largest "political parties" represented on Legco are: 1) Qilian Resource Center, to which most appointed members belong; and 2) UDHK, the flagship organization of Hong Kong's democratic groups. Six people sit on both Legco and Exco, four (Li Pengfei [2621 7720 7378], Zhou Liang Shuyi [0719 2733 3219 1837], Fan Xu Litai [5400 1776 7787 3141], and He Chengtian [0149 2110 1131], who are members of Qilian Resource Center; one (Huang Hongfa [7806 1347 4099]) was directly elected; and one

(Xu Xianfa [6079 6343 3127]) was elected by functional groups. Partisanship has spread to the Exco by way of Legco.

If the two councils are separated, it would have the greatest impact on Qilian Resource Center, which has members on both councils. They need to make a choice soon. The UDHK, on the other hand, will not be affected in any significant way. The reason is that last year UDHK rejected the collective responsibility system on Exco and none of its members was appointed to that council. UDHK has criticized the dominance of Qilian Resource Center on the Exco as being unrepresentative, arguing that directly elected Legco members should be appointed to the Exco instead.

Exco reorganization may be carried out following any one of these three plans:

1) Appoint to the Exco all Legco members who are the leaders of major parties on the council, in other words, set up a "coalition government." This plan would maintain a superficial balance among the various groups, but since the leaders of UDHK would thereby gain admission to Exco, it will certainly infuriate the overlords in the north.

2) Winner takes all, that is, let the most powerful group on Legco play the key role on Exco. As long as Qilian Resource Center remained the "royalist" party, it served the role of escort for the Hong Kong British Government. But now that the group has found greener pastures—it has begun cultivating ties with Beijing—it is no longer an escort. It seems that the time has come to split with Qilian Resource Center instead of continuing to nurture it. Yet if the government anoints the democratic parties as the mainstay, it would clearly be embarrassing the Chinese Government, a crime much worse than appointing a couple of UDHK members on the Exco.

3) The last remaining option is to separate the two councils. The good thing about this plan is that it would not anger Beijing. Also it would prevent the partisanship on Legco from making its way into Exco and defuse the pressure from directly elected Legco members for a spot on the Exco. However, it would take the government some time and effort to figure out how to win Legco support for and adoption of its proposals and bills after the two are separated.

[Passage omitted]

While rumors about council separation are making their rounds, the government is said to be ready to accept the collective resignation of nine unofficial members on the Exco. Other than Dame Lydia Dunn, who may be able to keep her seat because of her unique position (she was awarded a knighthood by the Queen), the new Exco would consist of appointees from among the social and business elites. You may wonder: 1) Outside of Legco, would there be enough social notables with the necessary prestige? 2) After the two councils are separated, the government and Exco must do their best to persuade the

Legco to go along with their policies. Would the governor do the ultimate thing, that is, would he roll up his sleeves and personally lobby for Legco support and sell government policies and measures to the public?

Present signs suggest that this is what Patten is prepared to do. And he is full of confidence. He plans to resign as president of Legco and present himself personally at Legco as head of the administration to answer questions from members. Meanwhile he has begun shaking up the government's publicity machinery. He now presides over meetings of the information and communications coordinating committee, replacing the Secretary for Home Affairs, and the director of the Information and Communications Office has become his personal press secretary, the idea being to step up official publicity and court the public through the media. As soon as he arrived in Hong Kong, Patten began making inspection tours everywhere, indicative of a governor taking pains to cultivate a populist image. On the issue of the political system, he is apparently trying to play the enlightened good guy, saying that the government must be made even more open. Meanwhile, negotiations between Britain and China over the financing of the construction of the new airport have reached a deadlock, and each side has been trying to turn public opinion to its advantage by launching "microphone diplomacy." Patten is a leading player in this diplomatic offensive.

[Passage omitted]

Hong Kong's political system must change as the "dynasty" changes. By experimenting with a new political system for post-1997, Patten in effect is introducing to Hong Kong on a larger scale British political operating methods.

The way Hong Kong operates politically has changed significantly since direct elections were instituted for Legco last year. But an increase in the number of directly elected Legco seats must be accompanied by and coordinated with other institutional changes, a particularly important one of which is rearranging the relations between the Legco and Exco. Regarding this matter, the Sino-British Joint Declaration says that administrative bodies must be responsible to the legislature in the future SAR of Hong Kong. The Basic Law, approved by Beijing the year before last, also states that the SAR government would be responsible to the legislative body (while narrowing the scope of responsibility in the fine print as much as possible.) It seems that the reform Patten is planning to try out is precisely the kind of legislative-executive relationship described in the Joint Declaration and Basic Law. To a large extent, what he is doing is to replicate in Hong Kong the relations between the British Government and Parliament as a way of restructuring the relations between the executive and legislative branches of government here.

Patten's goal is to perpetuate this system beyond 1997, at the same time making it acceptable to China. The question is whether or not Beijing will accept the offer.

Since it will be Hong Kong's overlord after 1997, Beijing will want to do things its way and would not like to be hindered by stuff inherited from the British. Thus, while Beijing may be willing to let the British preserve their governmental authority before 1997, it

is extremely reluctant to allow British political influence to linger in Hong Kong after 1997. Patten hopes that Hong Kong's reformed political system will outlive 1997, but it is unlikely that the Chinese would readily go along.

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